



World Council

**World Council of Credit Unions
Toolkit for Islamic Investment and Finance Cooperatives
(IIFCs)**

**Islamic Finance Manual
Operating Policies and Procedures
For Credit Unions**

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This manual has been developed by the Customer Owned Banking Association (COBA) of Australia. It is adapted from World Council of Credit Unions' program setting up Afghanistan's first Shariah-compliant credit unions and Islamic Investment and Finance Cooperatives (IIFC) Group, which serves as the national trade association for Afghanistan's credit unions, known as IIFCs.

World Council of Credit Unions, Inc.

Madison Office: 5710 Mineral Point Road, Madison, WI 53705-2982 • Phone: +1-608-395-2000 • Fax: +1-608-395-2001 • www.woccu.org
Washington Office: 601 Pennsylvania Avenue NW, Washington, DC 20004-2601 • Phone: +1-202-638-0205 • Fax: +1-202-638-3410

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USER GUIDE

This document provides a comprehensive set of standard operating policies and procedures required to establish Shariah-compliant credit unions, also called Islamic Investment and Finance Cooperatives (IIFCs) in the developing world. The policies and procedures presented in this document are intended to help IIFCs operating in developing markets and may not be applicable to credit unions in developed markets. World Council of Credit Unions may develop additional documents to help credit unions in developed markets open “Islamic windows” and offer Islamic finance products. The term “Islamic window” refers to a structure where “conventional” financial institutions offer Islamic products in addition to their conventional offerings. Institutions interested in offering Shariah-compliant products in addition to their traditional range of products should not see any changes to the physical structure of a credit union or branch office.

The focus of this document is for developing fully pledged IIFCs as opposed to an “Islamic window.” This manual brings together all the policies and procedures required to fully setup and establish IIFCs. This is the first document of its kind known to the authors. The policies and procedures presented in this manual were gathered over time from different sources, then tested and fine-tuned in Afghanistan. Some of the outlined policies were specifically created to cater to the needs of Afghanistan, but are nonetheless added into this Manual as they help to form a more complete policy framework for the establishment of IIFCs in Muslim communities. Having said that, the Islamic products are not only for those of Islamic faith, rather for institutions interested in offering an “ethical finance” option for their members. A growing number of people throughout the world are choosing Islamic finance products for this purpose.

Adherences to international standards and using best practices have been a core consideration in the development of this Manual. With the exception of Islamic loan policies and anything related to Islamic financing, all policies and procedures were developed in alignment with guidelines issued by the World Council. Thus by implementing this Manual, the IIFCs will not only comply with the requirements of Shariah Law in the context of Islamic financing but also comply with the standard requirements set forth for cooperatives and credit unions internationally.

This Manual was extracted based on the experience of World Council in Afghanistan over the past several years. In 2005, a year after Afghans held their first presidential election, World Council opened the country’s first credit unions in northern Afghanistan. The credit unions, known in Afghanistan as IIFCs, gave members their first opportunity to vote for their leadership and decide how their money would be invested in the community. Today, IIFCs provide Afghans the opportunity to grow their businesses and meet their household needs with Shariah-compliant financing in places where no other financial institution exists. The IIFCs have given Afghans a choice and real chance to improve their living conditions and help their communities grow. World Council and the National association of IIFCs in Afghanistan developed an Islamic cooperative model in the country by consulting with Islamic scholars and local religious leaders to modify World Council’s traditional credit union development methodology and establish the country’s first fully Shariah-compliant financial institutions. All IIFCs now offer share savings and loan products that

heed the Islamic prohibition on paying or receiving interest (riba). Securing religious decrees (fatwas) approving the IIFC products also helped attract members. World Council consulted leaders in each new community to ensure the IIFCs would meet their interpretation of Shariah compliance and to gain community support.

In more conservative rural communities, World Council found the credit union governance approach of electing volunteer directors from the broader membership conflicted with traditional governance structures. Membership growth in these areas was stagnant, and delinquency was a problem. In response, World Council recruited local tribal or village council elders (Shura leaders) to serve as board members. Their participation tapped traditional social networks and helped promote the IIFCs. The leaders also vouched for members seeking financing and applied social pressure for loan repayment. As a result, membership grew, and delinquency declined almost immediately.

Every effort has been made to decontextualize the following policies and procedures to ensure they are generic in nature, and applicable to other markets. Nonetheless, there may be some locations where the Manual's policies do not apply. Therefore, a careful review and analysis of the Manual should be undertaken prior to full implementation, and necessary changes in relation to local requirements and/or regulatory requirements should be added or amended.

United States Dollars (USD or US\$ or \$) are used as indicative currency throughout this Manual. However, it needs to be changed to the country's currency where this Manual is implemented.

Numbers, periods and percentages used in this document are indicative only and need to be adapted in accordance with relevant legislations and/or field realities.

INTRODUCTION TO THIS DOCUMENT

Islamic Investment and Finance Cooperatives (IIFCs) refer to financial cooperatives that offer retail financial products in compliance with ethical-financing principles of Islam.

Islamic finance has become a global phenomenon in today's financial markets. Not only are there Islamic financial markets operating in 37 Muslim countries, but many non-Muslim countries in Europe have also embraced Islamic finance. In the UK alone there are 22 fully pledged Islamic Investment and Finance Cooperatives (IIFCs).

Islamic finance has been around for about 1,400 years. The birth of Islamic finance took place when the Prophet Mohammad introduced reforms to the economic system of ancient Arabs in the 7th century. Between the 7th and late 20th century, Islamic finance gradually spread from Saudi Arabia to Spain, Morocco, India, China and North Africa. Ancient Arab traders dealt with their European counterparts based on the principles of Islamic finance.

But it has only been in the past four decades that Islamic finance has evolved to become an essential part of today's financial markets. In 1963, Mitt Ghamr Cooperative in Egypt introduced modern Islamic finance as we know it today. As it happened, it was an Egyptian cooperative in 1963 that introduced the modern "version" of Islamic finance. Islamic finance and the cooperative model have many common values at their core, and so it is particularly befitting that a cooperative pioneered today's Islamic banking model.

Islamic finance is based on the Shariah Law (Islamic Law) that is derived from the Muslims' holy book Quran and the teachings of Prophet Mohammad. There are five key principles on which Islamic finance is based:

- Prohibition of interest (Riba)
- Prohibition of financing certain economic activities (Maisir)
- Prohibition of uncertainty or speculation (Gharar)
- Importance of profit and loss sharing
- Asset-backing principle

These principles promote the distribution of wealth in communities on a 'just and fair basis'.

Islamic finance is a form of ethical financing where fair distribution of wealth, concern for the welfare of communities and economic stability are at the heart of its values. In addition, Islamic finance principles promote protection of consumer rights and prevent investment in businesses that are considered "harmful" such as gambling, armaments, alcohol and pornography. Creation of economies based on physical assets is at the heart of Islamic finance and this is the key reason why the Islamic financial sector was not hit by the recent global financial crisis to the same extent as the conventional financial sector. Interest is forbidden in Islam and is referred to as riba or usury. According to Islamic principles, it is unjust for money to be lent in an arrangement where the lender

demands principle and interest irrespective of gains or losses of the borrower. In other words, a lender who is not mindful of a borrower's losses would be seen as selfish.

One of the main reasons as to why interest is forbidden in Islam relates to what the definition of money is and what it is used for. Money in Islam is merely a medium of exchange for goods. It came into existence to replace the "barter era" arrangement where goods were exchanged for goods. In Islam, money, whose form has changed from coins to notes, from notes to plastic money and from plastic money to internet/virtual money must be used for the very purpose it was created for, i.e. a medium to exchange goods and services. Therefore, in Islamic economics money has no intrinsic value but is merely a medium of exchange and cannot be lent to create surpluses.

This is why Islamic finance products do not charge interest. Conventional financing is where the "lender" sells money and generates revenues (interest) from the sale of it. In contrast to this, in Islamic finance the institution sells back the physical asset and generates profits on it. In other words, Islamic finance is a form of physical assets-based financing as compared to conventional financing which is simply money-based. Islamic financial institutions buy goods or services their customers need and then sell to them at the acquisition price plus profit margin. The customers pay back in installments.

To procure the desired goods or services for a customer, financial institution (FI) staff need to buy directly from the seller. The more common practice is where the customer is assigned as an agent of the FI to procure the desired goods or services on behalf of the FI and then buy it from the FI. In this scenario, the customer has two hats: one where he/she represents the FI as its official agent buying the goods or services on the institution's behalf, and the other where he/she buys the very same goods or services from the FI as its "borrower." This arrangement is referred to as "agency agreement" with the customer and was introduced to make these Shariah-compliant financial transactions easier, reducing staffing burden on the FI and yet abiding by the sacred principles of Sharia Law.

This document was developed based on World Council's experience in Afghanistan where a number of Afghan IIFCs were established between 2004 and 2012. World Council's project focused on establishing sustainable cooperatives as well as the national apex trade association in Afghanistan. The national association, IIFC Group, was established in 2009 and is still operating today in 2013, well after the completion of World Council's project. The Afghan experience reflects a highly successful model of Islamic finance operating within the principles of the credit union movement. The Afghan IIFC movement is the world's youngest and is the only movement around the world that fully operates in compliance with the requirements of Shariah Law. To date, it is the only one of its kind to have been established on the basis of Islamic financing and is thus a much specialized movement.

There are 13 chapters in this Islamic Finance Manual (Manual). Each chapter briefly introduces the policy area, the chapter's purpose and scope followed by detailed review of procedural requirements and the persons involved with the review. Each chapter independently describes the processes required to undertake certain actions within an IIFC that seeks to comply with Shariah Law. Some

chapters include attachments in the form of templates/forms and contracts. Each chapter is briefly described as follows:

Membership Policies and Procedures

This first chapter introduces guidelines in relation to recruitment and acceptance of members into an IIFC. Member rights, responsibilities and obligations form part of this policy area. Guidelines and processes are detailed as to who and how one can attain membership of an IIFC. Each member of an IIFC has one vote irrespective of the amount and type of shares the member has or how long the member has been with an IIFC.

Shares and Savings Mobilization

Mobilizing shares and savings in an environment where sufficient funds from members are not sufficiently available to meet the required cash-flow needs of the IIFCs is vital. In environments where IIFCs operate may not provide access to commercial capital. Thus, this set of policies and procedures aim to increase awareness about benefits of savings amongst the membership of the IIFCs. These policies also target reluctant behavior on the part of members and aim to create comfort at their level to trust the IIFCs with their savings.

Islamic Compliant Financing

This policy area is a very important aspect of this Manual. In this chapter, Islamic loan product types, terms, conditions and processes are detailed. The policy requirements set out in this chapter are the ones that set authorities, rules and framework to operate and administer Islamic Compliant Financing (ICF) or the Islamic loans effectively and in compliance with all applicable laws and regulations of the country in which they are applied. Different types of Islamic financing product are discussed in detail, as well as the processes required to offer these products. This chapter also includes a toolkit with all the forms, templates and contracts necessary for an IIFC to offer Islamic finance products.

Collections

Effective collection policies are vital to the survival of the IIFC. This chapter introduces collection policies and procedures that are in compliance with Shari-a law. At the same time, they fully adhere to international best practices employed by the credit union movement around the world. Calculation of delinquencies, categorizing them, the procedure for contacting delinquent borrowers and the steps to addressing delinquent borrowers are addresses in this chapter. Processes for refinancing and restrictions around loan rescheduling are detailed as well. In addition, this policy sets out the requirements for when and how the collateral can be charged off against due balances of Islamic loans.

Provisions and Allowances for Bad Debt

To maintain financial soundness and a healthy operational environment at the IIFC, it is important to forecast and provision for various types of allowances and bad debt. Allowances for Probable Loss accounts balances represent all known and potential losses by various categories. Such allowances must be adequate to cover probable losses, if and when a need arises. This chapter discusses a range of factors that need to be considered when determining provision percentages and

what assets classification method to follow in a given country. This chapter also explores the process for various allowances and their percentages.

Assets and Liability Management

This policy defines tools and methods used to effectively set, manage and monitor Assets and Liability positions within the IIFC. Maximizing returns on both sides of the balance sheet is a key financial management area that requires particular focus. This section looks at the monitoring of the ALM position and defining alarm parameters, as well as the determination of interest rate risk and financial expenses reduction.

Capitalization and Capital Adequacy

Assets at an IIFC are sourced in two ways: liabilities owed to members and third parties, as well as capital that is owned by the IIFC itself. Generally speaking, the more the assets side is financed by the IIFC's capital the better. An IIFC is required to constantly increase the amount of capital it holds to maintain longevity and to continue to provide services to its members. To increase its capital, the IIFC must accumulate net profits. The minimum capital requirements are set by the Government and this chapter outlines various techniques of capital accumulation.

Accounting

Recording financial transactions with the aim of producing meaningful financial statements that can be interpreted and analyzed provides the basis for appropriate and timely decisions is essential to the IIFC. This section of the Manual provides policies and procedures important for the accounting function within the IIFC. Implementation of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) is required by the IIFC unless the country in which it operates requires special accounting standards to be implemented.

Cash Operations

As this Manual aims to help the development of IIFCs in developing countries, it is very likely that IIFCs will be predominately dealing with cash. This chapter looks specifically at the Afghan experience of cash handling. Using cash for everyday transactions is discouraged by IIFCs and only allowed in extraordinary circumstances. This chapter explores ways to safeguard cash within the premise and how to best handle the safe transportation of cash. The policies and procedures set forth in this chapter provide a detailed account of the kind of measures needed to be put in place to avoid theft, robbery and injury to staff working for the IIFC.

Internal Controls

This section of the Manual deals with establishing internal control system and determining methods and measures to be used in order to control the IIFC's daily operations, safeguard its assets and prevent possible fraudulent activities, procedural mistakes and human errors. Internal controls are mechanisms, policies, and procedures used to minimize and monitor various kinds of risks, mainly operational risks. The internal control system aims to control everyday activities of the IIFC, ensuring that policies and procedures are implemented across the board, that there exists segregation of duties, that there are internal and external mechanisms of checks and balances and those expenses are controlled.

Human Resources

Finding suitable and qualified staff for IIFCs in developing countries is a challenge. Human resources policies set out criteria for finding and identifying suitable staff, recruitment, training and staff retention. Each of these steps, which are managed by the human resources team, is defined in full in this chapter. This section also covers staff eligibility criteria, adherence to the country's labor laws and ensuring a healthy, respectful working environment that is conducive to learning and productivity. Gender balance and equal employment opportunities are encouraged by this policy. Policies regarding the employment of relatives and working hours, as well as the forms, types of leave and leave accrual mechanism are also described in this section.

Procurement

Both at the establishment stage and afterwards, IIFCs need to procure goods and services from local and, at times, from international markets. Adequate management of procurement and ensuring that the IIFC gets the best value for price in a transparent way is very important. This chapter lays out policies and procedures for various procurement areas such as tendering procedures, selection of suppliers and vendors, receipt of goods and services, responsibilities within the IIFC and the required approvals within approving limits.

Information Technology & Security

IIFCs deal with thousands of members and various types of accounts. It is very important that the IIFC management maintains high quality information technology systems in place that does not only store data appropriately, but helps the IIFCs retrieve stored information timely, accurately and promptly. Minimizing exposure to risks associated with the information stored on various devices and platforms, and ensuring authorized access form the core of this chapter. This section of the manual also gives an overview of regular updates of anti-virus systems, protection of databases against internal and external attacks, and the policies around the usage of external devices and linking external devices to the IIFC's internal systems.

Chapter One
Membership Policies and Procedures

POLICY INTRODUCTION

The purpose of these policies and procedures is to ensure recruitment of quality membership from a diverse membership base in the area of operation of the Islamic Investment and Finance Cooperative (IIFC), and to define the principles and requirements based on which individuals qualify for and obtain membership, and gain access to the services provided by the IIFC.

POLICY REVIEW

The IIFC's Board of Directors (BOD) is responsible for formulating, reviewing, and adjusting these policies and procedures. At least on an annual basis the BOD shall review all policies and make changes as necessary to ensure all policies are reflective of daily operations and the applicable legislative requirements.

MEMBERSHIP

Membership in the IIFC is limited to any individual who is a citizen of [insert country name], and/or resides or works in [country name], and is of legal age (18 and above).

The IIFC can also accept the following as associate members:

- Individuals below the age of 18 years who are children or under the legal guardianship of a regular IIFC member;
- A potential member meeting all membership requirements however unable to pay the required minimum ownership share amount and therefore required to make regular deposits within an agreed period before the requirement for minimum ownership shareholding is met.

As required of fully pledged members, associate members shall also pay membership fee that is referred to as Member Permanent Share Capital (MPSC) of equivalent to US\$2. Associate members may not receive any services of the IIFC prior to all membership requirements being met. This is with exception of the right to open and operate savings (deposits) accounts with the IIFC, and their membership rights and obligations are limited to those related to use of the IIFC's saving services.

APPLICATION FOR MEMBERSHIP

The process for membership application is as follows:

- Each membership applicant must be accompanied by a valid Identity Document (ID);
- An individual applicant qualifying for membership in the IIFC shall satisfactorily complete the membership orientation session regularly or at least once a month; i.e. conducted by the IIFC for potential members as applicable;
- Every membership applicant shall complete the Membership Application Form and the Membership Information Form (Attachments 1 and 2 to this policy).

- Applications for membership must be determined by either the BOD at regularly scheduled meetings of the BOD or by a member of the BOD, an employee of the IIFC appointed by the BOD not later than 60 days after the application has been submitted. A report detailing names of applicants and the recommendations/determinations of the applications shall be submitted to each BOD meeting by the IIFC's Membership Development Officer (MDO).
- Each applicant for the IIFC membership shall be required to purchase the minimum permanent share; i.e. MPSC of US\$2.

Should a potential member not be able to pay the required minimum ownership share amount, they may still open an account and make regular payments within the period of one (1) month before the requirement to meet the minimum ownership share amount is met. The member will continue to be classified as an associate member until such time as the minimum membership share requirements are met.

Where a potential member has received the member's permanent share capital amount through transfer from a terminated member, this should be confirmed by the written application from the terminated member on transfer of the share – i.e. indicating the share amount and name of the potential new member benefiting from this transfer.

- Within three (3) working days after approval and payment of the minimum ownership share by a new IIFC member, the new member shall be included in the IIFC's member register with a unique identification number as a means of identifying his/her share, loan and/or saving accounts with the IIFC. Associate members have to be registered in such a way that clearly identifies their associate membership status.
- Within three (3) working days after approval and payment of the minimum ownership share by the new IIFC member, payment of the ownership share amount by the member shall be confirmed through an individual membership passbook, indicating the ownership share size and identification number. Each member should be issued a passbook at this stage to record and keep track of their financial transactions with the IIFC.

OWNERSHIP SHARES

To be a member of the IIFC, each individual must pay for an ownership share – i.e. a contribution to the Share Capital of the IIFC - that is the MPSC.

The characteristics of MPSC are:

- Ownership shares are not withdrawable or refundable. Shares may however be transferred by the existing IIFC member to another potential member upon the existing member's termination of membership with the IIFC;
- The nominal value of an MPSC may be reduced to cover any operating losses of the IIFC.

The IIFC may accrue dividends on the members' ownership shares:

- The BOD shall declare dividends as earnings permit;
- Dividends may only be declared after satisfaction of all operational expenses, mandatory payments and required transfers to regulatory reserves; upon determining that the provision for loan loss account complies with requirements to the general and specific reserve; and after the annual general meeting of the IIFC members has been conducted;
- Dividends shall be distributed amongst the members of the IIFC proportionally to the size of their ownership shares;
- Dividends shall be paid in terms established by the Annual General Meeting (AGM) of the IIFC members;
- Dividends shall be paid to the members clear of applicable taxes that shall be withdrawn by the IIFC and paid in the legally prescribed order; (i.e. consistent with local laws).
- Dividends shall be credited to the share capital account of each member.

RIGHTS OF MEMBERS

Subject to the By-laws and this policy, all members shall have the right to use the Islamic Investment and Finance Cooperative's services and exercise their rights established by the applicable local laws and by-laws. Regular members are however typically entitled (but not limited to) the following rights:

- Attend and participate at the AGM and special meetings of members. Each member shall have one vote irrespective of the total amount of the member's shares and deposits.
- Participate in the election of or be elected as a Director to the BOD of the IIFC, and/or be appointed to the IIFC's committees by the BOD, provided the member is of good financial condition and reputation (i.e. void of delinquencies on payment, meets the IIFC requirements to the payment of a minimum ownership share amount, is not involved in deceitful and fraudulent activities, etc.), and where no conflict of interests exist.
- Use the IIFC services according to the policies and procedures approved by the BOD without being discriminated (i.e. with regard to race, nationality, sex and religion) against applying for any services.
- Submit projects or initiatives to the BOD for the improvement of the IIFC services.
- Make a written request to the secretary of the BOD for a special meeting of the members - as described in the IIFC bylaws.
- Receive dividends on shares after all expenses have been paid and capital retention requirements are met based on the decision of the AGM.
- Have access to the minutes of all meetings of the members, the BOD, Credit Committee and/or Board of Supervisors (BoS).

- Receive periodically, but not less than once a year, a statement of accounts containing the individualized record of the member's credit and debit transactions. This statement may be replaced by the detailed entries in a member's own individual passbook.
- At the written request of the member submitted to the IIFC, receive a copy of the annual report of the Board of supervisors approving the financial statements of the IIFC – i.e. prior to its approval at the general meeting.
- Voluntarily withdraw from IIFC membership.
- As applicable, entitled to other rights as prescribed by the legislation and the IIFC's bylaws.

The rights of associate members however are limited to use of the IIFC saving services and receipt of detailed transaction entries in their passbook.

RESPONSIBILITIES OF MEMBERS

A member shall be liable for the debts of the IIFC to the extent of his/her contribution to the share capital of the IIFC. The IIFC members have the following obligations:

- Adhere to the by-laws, policies and procedures of the IIFC;
- Comply with the decision of the IIFC's AGM, BOD, Credit Committee and Board of supervisors;
- Make full and timely repayments of Islamic Compliant Financing (ICF) received;
- Notify the IIFC of any changes in residence and any other applicable membership requirements in writing within 60 days after such changes occur;
- Assist in enhancing the IIFC's reputation and creditworthiness;
- Have other obligations as prescribed by legislation and/or the IIFC's bylaws.

Associate members have the same obligations as the regular IIFC members except for those related to ICF operations that are not conducted with the associate members.

TERMINATION OF MEMBERSHIP

Termination of membership may be automatic, voluntary or involuntary:

Automatic Termination of Membership: Membership with the Islamic Investment and Finance Cooperative is automatically terminated in the event of death (i.e. as confirmed by police, any Local Elders, or the court, etc); insanity and/or permanent incapacity (as confirmed by a qualified health care professional); or insolvency as declared by a competent court.

Voluntary Termination: A member may for any reason, withdraw his/her membership from the Islamic Investment and Finance Cooperative by giving 30-days' notice to the BOD via submission of a Membership Withdrawal Form (see Attachment 3 to this policy). The member shall be entitled to a refund of his/her share investment and other dividends in the Islamic Investment and Finance

Cooperative, and to a transfer of the permanent share capital contribution to another individual – i.e. potential IIFC member. However, no member shall be allowed to withdraw or terminate their membership during any period, while they have any pending obligations with the Islamic Investment and Finance Cooperative.

Involuntary Termination: A member may be terminated from the IIFC membership for any of the following reasons:

- When a member has not used the financial services (ICF and savings) of the IIFC for two years;
- When a member has failed to comply with his/her obligations;
- When a member has acted in violation of the by-laws and the policies (rules) of the IIFC; and
- For any act or omission, injurious or prejudicial to the interest of the welfare of the Islamic Investment and Finance Cooperative.

Upon formal and written announcement and proof that a member has committed the above-described violations punishable by involuntary membership termination, the member may be expelled by a majority vote of the BOD. Written notice shall be provided to the member in such circumstances setting forth the reason(s) for the proposed expulsion within 10 calendar days after the exclusion decision is taken. Within 30 calendar days after the written notice is issued, the member may appeal the decision of the BOD directly to the BOD. The final decision of the BOD may be appealed by the member to the next AGM or special General Assembly (GA) meeting of the IIFC membership. A member may be expelled by a two-thirds vote of the members present at the GA meeting.

In cases of automatic or voluntary membership termination, the decision-making authority can be delegated by the IIFC BOD to a member of the BOD; or an employee of the IIFC appointed by the BOD as applicable. An individual can re-apply for IIFC membership after 6 months from the date of ceasing IIFC membership, and upon paying the required share amount and any associated fees applicable at that time. In cases where the individual was involuntarily terminated from the membership for the reasons listed in the section C points 2-4 above, his/her repetitive membership application can be rejected by the BOD, BOD member, or employee assigned by the BOD as applicable.

DISPUTES

In cases of any dispute between a member and the IIFC, or in the event of a complaint by a member against the IIFC, or any of its officials or employees, the member may make application to the BOS for consideration. Should the dispute or complaint not be satisfied, the member may appeal to the BOD. The member may appeal to judicial bodies in order to settle the disputes.

DETAILED MEMBERSHIP PROCEDURES

PERSON(S) INVOLVED	PROCEDURES
Membership Development Officer (MDO)	<ol style="list-style-type: none"> 1. Conducts Membership Orientation Seminars. 2. Assists members in filling-out two copies of Membership Information Sheet (MIS) and one copy of Membership Application Form (MAF). Sample provided in Annex section. 3. Takes a copy of the applicant's ID. 4. Makes a note on the Membership Application Form on extent of compliance with the membership criteria and ex-membership history, if applicable, with recommendation for approval or denial. 5. Hands over one copy of MIS & MAF together with copy of ID to the BOD or responsible employee of the IIFC.
BOD (assigned Board member or assigned employee)	<ol style="list-style-type: none"> 6. Reviews the MIS & MAF for compliance with membership criteria. 7. Makes resolution on approval (or denial) of the membership application. A denial resolution shall be supported by reasons in writing. 8. Returns the MIS & MAF (with the approval or denial resolution) to the MDO.
Membership Development Officer	<p>If the membership application is denied the MDO informs the applicant on the denial decision and reasons. The applicant can be informed at the personal meeting or by written notification.</p> <p>If the membership application is approved:</p> <ol style="list-style-type: none"> 9. Take a photo of the applicant and print in 6 copies 1x1 or 2x2 sizes. (Note: photo must be taken for all male applicants, for female applicants photo requirement is not applicable if they

	<p>do not wish to be photographed).</p> <p>10. Take a fingerprint from the applicant (if the equipment is in place to do so).</p> <p>11. Paste 3 pictures in the MIS 2 copies & MAF one copy.</p> <p>12. Assign the unique identification for the new member using the Core-Banking System.</p> <p>13. Encode the information in the Core-Banking System (CBS) including the fingerprints (biometrics).</p> <p>14. Include the new member in the IIFC membership register (list) that can be captured via entry to the CBS.</p> <p>15. Hand over two copies of the MIS & one copy of the MAF together with the 3 remaining photos to the member and instruct members to bring those to the Cashier together with cash to be paid or any of applicable money transfer mechanism used.</p>
Cashier	<p>16. Receives the two copies of MIS, one copy MAF and 3 photos together with the cash from the member.</p> <p>17. Counts the money and issues an Official Receipt (OR) in three copies. If money is transferred to the account of the IIFC by any of the money transfer methods, the OR is used upon receipt of such money into the IIFC's account.</p> <p>18. Issues the member's personal membership passbook and fills-out the required information in the passbook. This includes pasting 1 picture and asking the member sign the passbook.</p> <p>19. Posts member transactions in the passbook and in the daily collection report.</p> <p>20. Forwards the two copies of MIS & one copy of MAF together with the 2 photos and the original copy of OR to the Accountant</p>

Accountant	<p>21. Receives all the documents from the cashier.</p> <p>22. Fills-out the required information in the share capital subsidiary ledger and savings deposit subsidiary ledger; pastes 1 photo for each and lets the member sign and place their thumb mark in the space provided (Note: for IIFCs not yet computerized).</p> <p>23. Checks the amount posted in the member's passbook against official receipts.</p> <p>24. Posts member's transaction to his/her subsidiary ledger based on original Official Receipt (again for IIFCs without CBS facilities)</p> <p>25. Posts transactions on transfer of membership permanent capital share from the terminated member, if applicable.</p> <p>26. Files two copies of the MIS and one copy of the MAF.</p> <p>27. Hands over the passbook together with all official receipts to the member.</p> <p>28. At the end of the day checks if the list of issued passbooks received from the cashier complies with both the new members list received from the MDO and the list of newly opened (or transferred) share accounts (i.e. by the Accountant).</p>
Membership Development Officer	<p>29. Based on the compliance of the new member's share amount with the minimum share requirement, the MDO makes the list of new regular and associate members that should be provided to the BOD on a monthly basis indicating the member's name, identification number, and current share balance.</p>
TRANSFER FROM ASSOCIATE TO REGULAR MEMBERSHIP	
Accountant	<p>1. Checks the share accounts on a daily basis for associate</p>

	<p>members with ages of 18 and above for compliance with the minimum share requirements.</p> <p>2. As the minimum share requirement is reached by the associate member, the Accountant informs the membership development officer on such members.</p>
Membership Development Officer	<p>3. Based on the information provided by the Accountant, the MDO informs the associate member on the upgrade of his/her status to regular membership and changes in his/her rights and liabilities.</p>
<p>TERMINATION OF MEMBERSHIP</p>	
Membership Development Officer	<p>1. Receives the voluntary membership termination application from the member (i.e. Membership Withdrawal Form). If applicable, the MDO shall indicate the permanent share transfer requirements or information on the reasons and/or violations for the automatic or involuntary membership termination from other IIFC departments (i.e. ICF, accounting, collection, etc).</p> <p>2. Prepares the proposal (Notes) on the membership termination.</p> <p>3. Hands over the member's termination application indicating the reason for withdrawal (e.g. voluntary termination) or the proposal on membership termination supported by the reasons leading/punishable by the membership termination (automatic of involuntary termination) to the BOD.</p>
Board of Directors	<p>4. Receives the application and/or proposal on membership termination from the membership development officer.</p> <p>5. Makes the decision on approval or denial of the membership termination by majority vote (note: In case of automatic or voluntary membership termination, the decision-making</p>

	<p>authority can be delegated by the IIFC BOD to a member of the Board and/or an employee of the IIFC appointed by the Board).</p> <p>6. Returns the termination application or proposal with the note confirming denial or approval to the MDO.</p>
Membership Development Officer	<p>In case of the membership termination approval:</p> <p>7. Informs the member on the termination, if possible.</p> <p>8. Excludes the member from the IIFC's members register.</p> <p>9. Hands over the termination application or proposal with a note on the denial or approval to the Accountant for the verification of the amount to be repaid to the terminated member.</p>
Accountant	<p>10. Verifies the share and dividend amount to be repaid to the terminated member, taking into account all their liabilities to the IIFC.</p> <p>11. Hands over the termination resolution (application) with the indicated amount to be repaid to the cashier.</p>
Cashier	<p>12. Receives the documents from the Accountant.</p> <p>13. Takes the passbook back from the terminated member.</p> <p>14. Issues an official disbursement voucher in three copies.</p> <p>15. Collects the CEO's or Accountant's signature on the disbursement voucher.</p> <p>16. Repays the share and dividend amounts calculated by the Accountant to the terminated member, and provides them with one copy of the disbursement voucher.</p>

ATTACHMENT 1
MEMBERSHIP APPLICATION FORM

Date:
BOD
Islamic Investment and Finance Cooperative

Dear Sir/Madam,

I ama resident of
I hereby apply for membership of the Islamic Investment and Finance Cooperative (IIFC), I acknowledge receipt of information about membership and its benefits through participation in the IIFC's seminars.

I am ready to pay US\$2 for Member's Permanent Share Capital (MPSC).

I also agree to participate in all meetings and seminars whenever conduct by the Board of Directors (BOD).

I also agree with rules and regulations of the IIFC and, I will follow all the plans approved by the BOD.

I confirm the above details, and will avoid any misappropriation in whatever form.

Applicant signature.....

ATTACHMENT 2
MEMBERSHIP INFORMATION

Personal Name : -----
-
Family name : -----
-
Gender : -----
-
Address : -----
-
Phone No : -----
--
Date of birth : -----
-
National ID No : -----
-
Marital status : -----
--
No of children : -----
--
Sector : -----
-
Farm area : -----
--
Occupation : -----
-
Employer : -----
-
Business name : -----
-
Office and business address: -----
-
Education : -----
-
CEO name : -----
-

Village leader name : -----

-

Primary beneficiary : -----

-

Ethnicity : -----

-

Right thumb mark

Name and signature

ATTACHMENT 3
MEMBERSHIP WITHDRAWAL FORM

Date: _____

To: Board of Directors

Islamic Investment and Finance Cooperative

Dear Sir/Madam,

My name is _____ and my membership number is
_____.

I would like to withdraw my membership from the [name of the IIFC] Islamic Investment and Finance Cooperative for the following reason: _____

Effective date: _____

With regards,

Member Name and signature: _____

Certified by: MDO _____

Approved by: Board of Directors _____

Chapter Two

Shares and Savings Mobilization

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the guidelines and requirements for the Islamic Investment and Finance Cooperative (IIFC) on the development and introduction of share and saving products for its members in order to encourage saving habits among its members, thereby generating more funds for the IIFC.

Savings is a habit that should be practiced regularly. This is especially true if members can only set aside a small amount at a time. To get members to develop this savings habit, the IIFC must convert non-savers into savers and convert occasional savers into habitual savers. There are many elements that affect savings, which include:

- Cultural attitudes
- The members age
- The current situation and general environmental factors in the habitual residence of the member
- The current economic situation
- The members earning level
- Government policies (taxation and dividend rate policies)
- Confidence in the IIFC
- Accessibility of funds.

A number of factors will influence the savings products that will be offered by the IIFC; however the IIFC management and elected officials have to ensure that the share and saving products offered are:

- Desired by the members
- Offered at a dividend rate protecting the savings from inflation
- Competitive with other local financial institutions
- Structured in such a way that members have convenient access to their money

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis, the Board shall review the policy and make changes as necessary so that it is reflective of the members' needs, local market competition, daily operations, and applicable legislative requirements.

WHO CAN INVEST/DEPOSIT IN THE IIFC

The IIFC accepts shares and savings only from its members, both fully pledged/regular and associate. Based on special decisions of the BOD and concluded cooperation agreements, the IIFC can accept investments (not deposits) from international or national non-government organizations

duly registered for and operating with the sole purpose of representing and supporting cooperatives providing financial services to their members. All certificate (term) share savings and subordinated share (Shares invested in the IIFCs that are payable, in case of dissolution of IIFC, after all other claims on the IIFCs are paid) savings agreements concluded with member or non-member-depositors shall be accompanied by a written contract that indicates the rights and responsibilities of both the IIFC and the member, including a clear statement of the amounts owed by whom, to whom, and when. For other share savings options, the detailed records in the member's passbook may substitute for the written contract.

All share and savings products shall be equally accessible by all IIFC members. The IIFC is prohibited from engagement in any transaction with elected officials, employees or their relatives, where the terms and conditions of such transactions are less favorable to the IIFC than the terms and conditions of similar transactions with other persons. Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.

CONCENTRATION OF SAVINGS

No one member may own in total more than 10 per cent of total IIFC shares and savings. Only the special investments made by non-members described in Section 3 of this chapter (i.e. With the purpose of the IIFC's institutional development/support) can exceed this limitation.

MARKETING OF SAVING PRODUCTS

The IIFC will use various ways to market savings products. The IIFC's management and the elected officials will promote savings through:

- Personal contact with the members which could involve: the cross selling of products during member visits to the IIFC, financial counseling sessions or workshops, etc.
- Printed material. It is important that when this type of marketing is used it is "targeted" towards the individuals that the IIFC is trying to reach; otherwise it will not be cost-effective.
- Awards and incentives offering members extra benefits for savings. These should be used for a limited time and/or sparingly so that the award or incentive is something special to members.
- "Word of mouth" is always the cheapest and most effective form of marketing. Through improved member service and products "word of mouth" marketing will grow.

The terms and conditions of all share and savings products provided by an IIFC to its members must be made public and readily available to members and potential members. The IIFC is prohibited from falsely or misleadingly advertising or presenting its activities.

TYPES OF SAVING PRODUCTS

The IIFC is prohibited from accepting current account deposits from members, or any saving that is similar to a current account that can be debited by the customer by writing a check or requesting a payment order.

Each IIFC member may have one ownership share account, one special purpose account for each purpose offered, and more than one regular or term deposit. The savings products table attached to this policy includes detailed terms and conditions on each savings product offered by the IIFC.

The following types of shares and savings are offered:

- **Mudharabah Share Savings.** Mudharabah Share Savings are savings that can be withdrawn anytime by the members, unless these deposits are linked as security to any financial contracts that the members have entered into with the IIFC. The IIFC offers the following Mudharabah Share Saving products:
- **Pledged Share Savings** – These are additional deposits placed by members to meet the required compensating balance in availing Islamic Compliant Financing – ICFs or Islamic loan with the cooperative (i.e. 10 per cent of the ICF amount, for both agricultural and business ICFs/loans). These savings cannot be withdrawn until the relevant ICF contracts are fully paid. However, the IIFC is authorized to deduct pledge savings of delinquent borrowers from the unpaid amount of their ICFs in order to disclose the real percentage of portfolio at risk (PAR).
- **Regular Share Savings** – These are additional deposits made by the member that are over the compensating balance required for the ICF. A member can deposit and withdraw regular shares savings anytime. The minimum initial deposit for regular savings account shall be at least US\$2 (indicative only). A member has to maintain a balance of at least US\$10 before regular savings can earn dividends. Minors may open a regular savings account at a minimum of US\$2. NOTE: The necessary modifications (settings) should be made in the IIFC’s accounting system (Core-Banking System) to calculate the dividends only on the balance over the minimum requirement.
- **Individual Development Accounts (IDA)** - Designed to inculcate the habit of saving regularly, these are small but regular amounts deposited by members from the lower-income bracket. Most often these small accounts purposely are made to save for housing, education and medical needs of poorer members.

The IIFC can make a corresponding increase into IDA accounts, equivalent to the deposit made by the member ONLY out of available saving development programs funded by the development institutions or donors as applicable.

To qualify for this “match grant”, the deposits of the member must stay with the IIFC for at least two years. If this prescribed period is not met, the matched fund will remain with the IIFC as a

separate fund that can then be transferred to another qualified IDA participant or recognized as the IIFC's other income.

- **Business Development Accounts (BDA)** - A BDA has the same mechanics as an IDA except that deposits made by members are for the purpose of obtaining ICF contracts with the IIFC. Since members identified for this program are generally poor, they most likely will not have the financial capacity to meet the compensating balance requirements for ICFs. As such, the matched fund contributed by the partner organization will enable them to meet the requirements for obtaining an ICF; thereby fulfilling the IIFC mandate to cater to lower-income bracket target groups.

Upon availability of donor funds (external capital), the IIFC can also give BDA match grants up to double of the deposited amount by the qualified borrowers. However, the IIFC match will not be able to be withdrawn for two years; while the borrower's deposit can be withdrawn anytime (i.e. once the ICF is paid in full). A maximum amount of US\$50 can be matched up by the IIFC. In special cases, the maximum amount can go as high as US\$100 for members in good standing.

- **Certificate Share Savings** – These are term deposits made by members or depositors to the IIFC. The Certificate Share Savings (CSS) can be withdrawn or rolled-over based on the agreed term between the IIFC and the depositor. The minimum amount for Term Deposits is US\$20.
- **Al-Wadiah Share Savings** - The Al-Wadiah Share Savings (WSS) are non-dividend earning savings placed by a member at the IIFC. WSS are often generated via a special project implemented by the IIFC. Like term deposits, WSS balances can be withdrawn only within the term stipulated and agreed upon by the IIFC and the member.

Other non-dividend earning deposits also fall under the WSS account. Members who desire not to receive dividends can place their funds in these accounts. Most of these depositors simply place their deposits to augment IIFC funds for its ICF programs and in doing so, help the other members of the cooperative.

- **Members' Permanent Share Capital (MPSC)** - MPSC is the part of the ownership share and initial investment made by a member as one of the general requirements for membership at the IIFC. MPSC balances cannot be withdrawn by members; however they can be transferred or assigned to another new member. MPSC balances are limited to only US\$2 per member. Detailed procedures for the MPSC are included in the members' acceptance and exclusion policies and procedures.
- **Subordinated Share Investments** - These are any funds placed by donors and/or other institutions to facilitate the implementation of the ICF development program

of the IIFC. In addition to the savings and investments made by the members, these funds serve as working capital of the IIFC.

DIVIDEND COSTS:

Dividends on all savings offered by the IIFC shall be paid to the members clear of applicable taxes that shall be withdrawn by the IIFC and paid in the legally prescribed order.

- **Mudharabah Share Savings:** All Mudharabah share savings such as Pledged Share Savings, Regular Share Savings, IDA, and BDA accounts earn an expected annual dividend rate of 5 per cent. The dividends can be accrued monthly at the expected dividend rate, but not less than quarterly. That said the actual payment of dividends can happen only once a year – i.e. at the end of the fiscal year and only if the IIFC has the net profit at year-end, or has special capital reserves created in the past years to fully cover current year losses – where applicable. Once paid, dividends can be withdrawn by depositors. Where not withdrawn within 30 days after the payment, dividends are automatically added to the individual saving account.

For regular share savings, dividends will be accrued (computed) based on the lowest balance of not less than US\$10. Dividends are not accrued on savings below this balance.

- **Certificate Share Savings:** The expected CSS annual dividend rate is likely to be in the vicinity of 8 per cent. The IIFC's BOD can make decisions on the payment of the increased dividend rate on this type of savings on the IIFC's level of net earnings for the period, taking into consideration the amount deposited and the term of the savings. Term Deposits of US\$10,000 for example are considered as prime deposits, and management must therefore be prudent when setting the dividend rates on the certificate share savings of such balances.

Any term savings that are not withdrawn within 7 days after the maturity date will again be rolled-over automatically by the IIFC. Any term deposits fully or partially withdrawn before the maturity date will earn a dividend rate equal to that of a Regular Share Savings Deposit.

- Al -Wadiah Share Savings are non-dividend earning deposits at the IIFC.
- Members' Permanent Share Capital represents non-dividend earning deposits at the IIFC.
- Subordinated Investments shall earn an 8 per cent dividend calculated annually. Dividends are accrued quarterly. The accrued dividends are paid at the request of the investor or related donor.
- Share Investments for Membership – The BOD shall declare dividends on these accounts as earnings permit. Dividends may only be declared after satisfaction of all operational expenses, mandatory payments and required transfers to regulatory reserves and after determining that the provisions for ICF loss accounts comply with requirements to the general and specific reserve, and after the AGM of the IIFC

members has been conducted. Dividends shall be distributed amongst the members of the IIFC proportionally to the size of their ownership shares. Dividends shall be paid in terms established by the AGM of the IIFC members. Dividends shall be credited to the share capital account of each member.

REVIEW OF DIVIDEND RATES

When determining the dividend rates to be paid on all share and savings accounts, IIFC management and the officials need to consider:

- **Costs** - What does it cost the IIFC to offer that product?
- **Competition** - What are other financial institutions that the IIFC competes with directly paying on each type of account offered? Are there any types of deposits that the officials think would improve the financial soundness of the IIFC? If so, special promotions, increased marketing efforts, and attractive rates should be offered.
- **The current inflation rate** – Dividend rates paid on shares and savings should be higher than inflation or competitive with local market so that the members' savings accounts do not lose value while on deposit at the IIFC. (In some cases when inflation is high, it is financially impossible to offer rates above inflation; rates competitive with local market have to be paid.)
- **Member behavior** - Do members have funds in the IIFC because the dividend rate is the highest in the area? How loyal are the members? If the savings return rate is less than anticipated will they keep their deposits at the IIFC or will they take their money elsewhere?
- **The IIFC management** should comply with the following procedure in order to ensure the effective periodic review of the dividends rates:
 - A. On a quarterly basis, the IIFC management should contact the other institutions to determine their rates on their various products. The IIFC management should also review the IIFC's financial operations. Based on this composite analysis, the IIFC CEO should then recommend to the BOD changes on the dividend rates for each type of shares and savings, also taking into consideration their maturity. The BOD shall also approve the frequency of dividend payment on each type of shares and savings.
 - B. These pre-approved rates are those that will be applied to each account when calculating dividends. The IIFC CEO shall propose any changes to the established dividend rates and inform the BOD at the monthly meetings on such exceptions and seek the BOD approval.

SAVINGS HELD AS COLLATERAL:

Unless stated otherwise in the individual saving agreement, only the specified saving types can be used as collateral from either a maker or co-maker until the ICF is fully paid. The ICF maturity has to coincide with the pledged (security) saving maturity. Thus these deposits will be locked or held in the system until the ICF amount of a member is fully repaid, and also can be used for the ICF repayment. The following are the savings account examples that can be used as security for the ICF:

Pledged Share Savings

1. Institutional Development Account including the Matched Fund
2. Business Development Account including the Matched Fund
3. Share Investment for Membership Account

DORMANT ACCOUNTS

1. Savings below US\$4 without any transactions performed for a period of two (2) years shall be considered dormant.
2. All dormant accounts shall be charged a service fee of US\$1 per month until the balance is zero.
3. The dormant accounts should be segregated from the active accounts or (if computerized), otherwise identified differently than the active accounts.
4. This is not applied to the saving accounts of minors.

REVIEW OF SAVING PRODUCTS

On a quarterly basis the IIFC CEO shall prepare and the BOS and BOD shall perform a trend analysis of the following ratios, which address the IIFC share savings:

Ratio	Formula	Norm/Goal
Growth of Members' Shares	$(\text{Total Member Shares for the current quarter} / \text{Total Member Shares for previous quarter} - 1) * 100 \text{ per cent}$	Positive
Business Plan Target Achievement	$(\text{Total Actual Member Shares for the current quarter} / \text{Business Plan Target Member Shares for the current quarter} - 1) * 100 \text{ per cent}$	>100 per cent

Financial Costs	Dividend Cost on Member Share Savings/Average Share Savings	Market Rates
Level of Member Voluntary accessible Shares	Member Voluntary accessible Shares/Total Assets *100per cent	>0
Level of pledged shares	Total Pledged Shares/Total Member ICF*100per cent	>10 per cent

Negative trends should be addressed immediately with the IIFC’s CEO and the BOD.

SAVINGS PROCEDURES

1. Prior to opening any savings accounts, the individual requesting the account must be eligible for permanent or associate membership in the IIFC (Please, refer to the members acceptance and exclusion policies and procedures for details). Requirements to open any deposit account are necessary to establish and verify the member’s identity. Additional requirements include the following:
 - **For business name/sole proprietorship accounts:**
 - A. Certificate of Registration of Business Name with national/local government
 - B. Special Power of Attorney (SPA) or any Certified Document by an Authorized Person/s in the community if signatory is other than the owner of the business
 - **For partnership accounts:**
 - A. Certificate of Registration of Partnership with the national/local government
 - B. Articles of Co-Partnership
 - C. Partnership Resolution or Agreement duly notarized/certified, designating the following:
 - I.IIFC as its depository bank
 - II. Authorized signatories
 - **For corporations/associations:**
 - A. Articles of Incorporation and By-laws
 - B. Certificates of filing of Articles of Incorporation and By-laws
 - C. Board Resolution duly certified by the Corporate/Association Secretary, designating the following:
 - I.IIFC as its depository
 - II. Authorized signatories

2. Any transaction in a member's share and savings account should be supported by the duly registered and signed documents.
3. All members shall be provided with the passbook, recording entries on all transactions in share and savings accounts.
 - All members having share and saving accounts in the IIFC shall be provided with a Passbook with attached guidelines for the deposit and withdrawal of funds.
 - In case of discrepancies in the Passbook, figures from the deposit ledger or accounting records, as well as core-banking system data shall be the final record of the transactions that actually took place.
 - Depositors placing term deposits at the IIFC shall be provided with a Passbook specifying the term of the deposit, dividend payment rates, and maturity dates for the term deposit. A member needs to present this Passbook upon termination of the term deposit.
 - The IIFC shall issue new Passbooks to replace filled-up ones. The new Passbook shall include the same account number as the filled-up one. The filled-up Passbook shall then be invalidated by punching holes through it and stamping it with FILLED UP.
 - The IIFC will issue a new Passbook or Certificate of Term Deposits (CTD) if a member reports that his/her previous one has been lost or misplaced. The new Passbook or CTD shall still carry the same Passbook or CTD number of the lost or misplaced one. A fee of US\$1 shall be paid by the member to receive the replacement of the lost or misplaced Passbook or CTD.
 - The IIFC will replace mutilated and/or worn-out Passbooks with new ones. The new Passbook shall include the original Passbook number.
 - Cashiers are not allowed to hold or keep member's Passbooks at the IIFC for member's convenience.

A. For deposit:

- i. The member should present their deposit passbook when making deposits at the IIFC.
- ii. The transaction should be confirmed with an issued Official Receipt featuring the correct date, CID number, member's name, account number, type of account, amount both in words and in figure; and should be counter-signed by the cashier before posting it in the core-banking system.
- iii. Erasures/corrections should be minimized and should be signed by the authorized staff member.
- iv. All entries made in the passbook should also bear the cashier or Accountant's initial before returning the passbook to the member.

B. For withdrawals:

- i. The depositor must make all withdrawals personally or through a duly authorized representative with proper identification, and using properly completed withdrawal slips. In cases of the death of a depositor, the principal legal beneficiaries have the sole right to withdraw the deposits of the deceased member.
 - ii. The member should present the passbook and the document confirming his/her identity (ID). Without presenting a Passbook, no member shall be allowed to withdraw deposits at the IIFC. The core-banking system shall use a biometrics facility to validate the identity of members who are making withdrawals.
 - iii. All disbursements in cash and withdrawals of savings/term deposit should be covered with a duly signed Cash Disbursement Voucher or withdrawal slip. The amount in words and figures written on the Withdrawal Slip should be in agreement
 - iv. Erasures or corrections in the withdrawal slip should be minimized and should be signed by the principal account owner(s).
 - v. All entries made in a passbook should bear the cashier or Accountant's initial before giving it back to the member.
 - vi. Before a member is allowed to withdraw funds, the cashier should ensure that the member is not delinquent. If they are, they should not be allowed to decrease the account below the amount of the delinquent principal and mark-up.
 - vii. When closing any accounts the IIFC staff should insure that the funds are not securing ICF. If there is an active ICF secured by the account it may not be closed. In order to have an ICF, the individual must always be a member of the IIFC and have the minimum ownership share deposit.
- C. The IIFC management shall implement internal control measures to ensure the full safety and security of members' shares and savings:
- i. Any change in the terms and conditions on shares and savings shall be approved in writing by the BOD or IIFC Management, and must be made public and readily available to members and potential members before these new terms can be applied to the IIFC's operations.
 - ii. The IIFC CEO shall ensure the adequate safety of all documents on members' shares and savings.
 - iii. The Accountant shall ensure the correctness and timelines of all transactions in the members' share and saving accounts and provide regular (i.e. at least monthly) share and savings reports to the IIFC CEO.

- iv. The Accountant shall verify the authenticity of the documentation - particularly against signature cards, passbooks, and core-banking system data on a daily basis.
- v. The Cashier shall be officially responsible and accountable for all deposits and withdrawals in the members' share and savings accounts.
- vi. Employee and official accounts (including family member accounts as applicable), should be reviewed for unusual or abnormal activity by the board of supervisors on a quarterly basis.
- vii. Members should be notified immediately in writing if there are any errors in the records of their accounts.
- viii. All change of address requests for accounts must be in writing and signed by the member.

SHARE AND SAVING PRODUCTS

Share and Saving Type	Minimum amount (US\$)	Maximum amount (US\$)	Term	Access to funds	Expected Dividend Rate per annum	Payment of dividends	Objective
Membership Permanent Share Capital	US\$2	US\$2	No term	Transfer only	0per cent	Annually added to the account following AGM approval	Membership admission
Membership Share Investment	US\$2	US\$20	No term	Upon termination of membership	8per cent	Annually added to the account following AGM approval	Obtain membership and voting rights
Pledge savings	10per cent of the ICF application	10per cent of the ICF application	Co-terminus with the SFC term	Upon full payment of ICF. Can be used to repay delinquent ICF amount	5per cent	Upon full payment of ICF	ICF linked deposit
Regular Savings	Minimum of US\$ 2	10per cent of total shares	No term	Anytime	5per cent	At the member's request	Develop savings habit

IDA (Individual Development Accounts)	US\$2	US\$100	Co- terminus with the SFC term	Upon full payment of ICF	5per cent	Upon full payment of ICF	ICF linked deposit
BDA (Individual Development Accounts)	US\$2	US\$100	Co- terminus with the SFC term	Upon full payment of ICF	5per cent	Upon full payment of ICF	ICF linked deposit
Special-term deposit	US\$20	10per cent of total shares	Fixed term, minimum of 1 year	At the maturity	8per cent	At the maturity	Additional Services

Chapter Three

Islamic Compliant Financing (ICF)

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures of the Islamic Investment and Finance Cooperative (IIFC) set the authorities, rules and framework to operate and administer Islamic Compliant Financing (ICF) effectively and in compliance with all applicable laws and regulations of [country name]. The IIFC's by-laws and internal policies provide members with ICF products that are accessible and useful to them in improving the quality of their income and the financial situation of their families.

ICF is an essential element of the IIFC's operations and therefore the appropriate controls and procedures need to be in place. This policy is complemented with ICF procedures and is consistent with the appropriate legislation of [country name] and the relevant regulatory and contractual requirements. It is the objective of the IIFC to serve the borrowing needs of members through Islamic Compliant Financing, and to establish a long-term financial relationship with each member while avoiding any unnecessary risk by providing a framework within which the responsible personnel can operate promptly, with confidence, relative uniformity, and flexibility.

The IIFC is envisioned to be a prime mover in regional development via the savings mobilization of members. "Thrift" is therefore encouraged amongst members in order to increase the level of individual savings. In other words, members are only able to generate economic activity in their locality when their resources are pooled and utilized for the common good.

Access to ICF and savings services matter in the economic circumstances and quality of life of individuals. These financial services help IIFC members to meet their household and business goals by expanding their options and increasing the productivity of their resources. Savings allows depositors to store current income as assets for future use, while ICF also allows borrowers to invest or consume against expected future income. The IIFC will function as a financial advisor to its members. Members who are denied ICF will be given financial advice so that they can improve their financial situation. The IIFC may only grant ICF to those members who have a good reputation and are creditworthy, and whose credit application complies with the IIFC policies.

No member in good standing of the IIFC will be denied any service due to discrimination on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract).

POLICY FORMULATION, IMPLEMENTATION AND REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting these policies and procedures. At least on an annual basis the BOD shall review the policy and make changes as necessary so that it is reflective of the members' needs, local market competition, daily operations and applicable legislative requirements.

The IIFC's Credit Committee, CEO and employees are obliged to accurately and fully comply with these policies and procedures. The Credit Committee will be responsible for the approval or denial

of ICFs. The Credit Committee should consist of three (3) members. Preferably one (1) of these members should be a local elder for a rural IIFC, or a union leader in the case of urban based IIFCs – the premise being that these members must have knowledge about most of the applicant-borrowers. An additional two members must have financial analysis expertise. An employee of the National Association,, authorized by the CEO of the National Association, shall sit on all Credit Committees as an observer. The observer is not required to sign on/accept any loan application, rather observe and guide the Credit Committee on proper due diligence. It is the Credit Committee’s responsibility to consult the respective local elders to ask about the character of applicants (i.e. where they don’t know the applicants). The Credit Committee must provide ICF portfolio evaluation reports (i.e. delinquency and other statistical reports) to the BOD on monthly basis.

The IIFC’s BOD will be responsible for ensuring that this ICF policy is carried out adequately and that it achieves the goals for which it was created. BOD members will determine if the policy is being complied with by periodically (i.e. preferably monthly and no less than quarterly) reviewing a sample of ICF loans granted and denied and all ICFs issued to officials and employees of the IIFC. An audit will be concluded by a written report including findings and recommendations to the IIFC’s CEO with a copy to the BOD.

ICF PORTFOLIO STANDARDS

Based on regulative and safety requirements, all ICFs are subject to the following standards, which should be strictly followed:

- The IIFC shall not issue any ICFs to non-members.
- The IIFC shall issue ICFs only in local currency.
- The terms and conditions of all services, including ICF services provided by an IIFC to its members shall be made public and readily available to members and potential members.
- Any Islamic compliant financing agreement concluded with a member-borrower shall be accompanied by a written contract that indicates the rights and responsibilities of both the IIFC and the member, including a clear statement of the amounts owed by whom, to whom, and when. It will also be necessary to produce a detailed repayment schedule (Note: unless repayment of the principal and mark-up is payable as a lump sum at the end of such agreement).
- The IIFC shall not issue Islamic compliant financing to a member where the purpose is to buy additional shares in the IIFC.
- The IIFC shall strictly monitor and keep accurate records of the number of days every Islamic compliant financing credit product is delinquent in any required payment under the ICF contract.
- The IIFC shall comply with requirement for pledged shares viz Total Pledged Shares/Total Member ICFs*100per cent is more than 10per cent.

- The IIFC shall comply with the maximum risk for one borrower requirement: (i.e. the Largest ICF for one borrower of group of related borrowers)/(Non-redeemable shares + Capital Reserves)*100per cent is less than 5per cent
- The IIFC shall comply with the maximum level of ICFs to administrators requirement: i.e. (the Total amount of ICFs and ICFs to elected officials and employees)/(Non-redeemable shares + Capital Reserves)*100per cent is less than 25per cent
- The maximum or medium ICF amount per member or group of related members shall be less than US\$10,000 or equivalent
- The IIFC should not refinance any ICFs to borrowers
- The IIFC shall not restructure any delinquent ICFs, unless approved by the BOD and the National Association
- The IIFC shall not engage in any transaction with elected officials, employees or their relatives where the terms and conditions of such transaction are less favorable to the IIFC than the terms and conditions of similar transactions with other persons.
- Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.

ICF ELEGIBILITY

The maximum amount, which any one member may be indebted to this IIFC, is US\$10,000. At the same time the IIFC shall comply with the maximum risk for one borrower requirement: i.e. (the Largest ICF for one borrower or group of related borrowers)/(Non-redeemable shares + Capital Reserves)*100per cent is less than 5per cent. Both of these limitations shall be applied at the time when the ICF decision is made. The IIFC is allowed to disburse Medium ICFs of up to US\$10,000. Medium ICFs are only for business purposes. Such ICFs can also be given for agricultural purposes, such as farming machinery, but not for farm working capital such as crops, etc. The maximum term allowed for ICFs is 24 months. Membership in the IIFC is open only to individuals who are within the field of membership as defined in national/local bylaws. Any IIFC member is eligible to access ICF services provided by the IIFC as long as he/she meets the eligibility criteria and policy set for the ICF product. The IIFC is not permitted to accept an ICF application from a non-member who is not in the IIFC's field of membership.

No officer or staff member of the IIFC will, in any manner, discourage a member from submitting an application for ICF. The IIFC will accept and consider an application from any member who wishes to submit a request for ICF. All applications for ICF shall be made in writing and shall state the purpose for which the ICF is desired and the security offered, if any. Verbal requests shall not be accepted. Only application forms that are completed in all details shall be accepted. Whenever possible (and considering the best interests of both the member and the IIFC), the IIFC shall attempt to make a counter offer to any applicant, who is denied the amount of ICF they are seeking. Any member may appeal the denial of any ICF. The appeal must be in writing to the

BOD. Any member who has caused the IIFC a loss is not eligible to receive an ICF unless the loss is completely paid back. Once the loss has been fully repaid the member shall be eligible for financial services in accordance with the IIFC policies and standards. In order to promote savings and deposit growth, all borrowers must have a minimum balance, which is 10 per cent of the ICF amount at the IIFC in order to obtain an ICF.

ICF PURPOSES

ICFs will be for agricultural, business or personal purposes. The following types are acceptable: Agricultural ICFs, including:

- Livestock
- Crop (wheat, rice, corn, vegetables)
- Leasing for Farm Machinery
- Business ICFs, including:
- Trading
- Services
- Manufacturing
- Community Group ICFs, including:
- Small business groups
- Small farmer groups
- Personal ICFs
- Real estate purchases
- Vehicle purchases
- Home Improvements
- Furniture, Computer, Appliance purchases
- Jewelry purchases
- Educational Expenses
- Personal or Vacation expenses

ICF PORTFOLIO COMPOSITION

It is important that the ICF portfolio composition is diversified so as to reduce the inherent risk across the different ICF types. Because of this, the following limits by ICF type have been established.

ICF Type	Maximum per cent of TOTAL ICF Portfolio
Business ICFs	___per cent
Agriculture ICFs	___per cent
Community Group ICFs	___per cent

Personal ICFs _____per cent

The IIFC total ICF portfolio must be maintained at the level of 70per cent-80per cent of total assets, while the remaining 20per cent shall be used to meet the infrastructure needs and liquidity requirements of the business.

ICFs TO OFFICIALS AND EMPLOYEES

Members of the BOD, Credit Committee, BOS, and employees may borrow from the IIFC provided that the application and personal financial verifications are completed in all details. All officials and employees accessing ICF services shall undergo the same processing and evaluation as other members. No ICF to any official or employee shall be on terms more favorable than those extended to other persons borrowing from the IIFC.

All ICFs to officials and employees shall be approved by the Credit Committee. The Credit Committee ICFs shall be also approved by a majority vote of the BOD. None of the Credit Committee members have a voting right on his/her personal ICFs or the ICFs of his/her closes relatives or affiliated parties. The Supervisory Committee will be informed of all ICFs granted to board, Credit Committee and Supervisory Committee members, or employees with ICFs granting authority. No employee, Credit Committee member, BOS member, or BOD member shall have any part in approving, processing, or disbursing ICFs on their own account, that of a relative, or that of an individual where the appearance of a conflict of interest may result.

Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.

CONCENTRATION

No member or group of members who are considered to be related such as family businesses or closely related family members (i.e. those dependent on the same source of income) may receive secured or unsecured ICFs, or be obligated to the IIFC in excess of 5per cent of total capital or US\$ _____, whichever is the less.

RISK CONTROL OF ICFs

The main risks faced by the IIFC on its ICF operations are: Credit Risk, Market Risk, Policy/Regulatory Risk, Liquidity Risk, and Transaction Risk.

1. Credit Risk

Credit risk is the most significant risk associated with ICFs. A borrower's business production and ability to repay the ICF can be affected seriously by various factors, some of which are not directly under the borrower's control. Credit risks in adverse conditions may result in the borrower's inability to repay the ICF to the IIFC. Credit risk is most simply defined as the potential that a borrower will fail to meet their

obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the IIFC's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The IIFC needs to manage the credit risk inherent in the entire ICF portfolio as well as the risk in individual ICFs. A sound credit risk management program will include the following areas:

- Establishing an appropriate credit risk environment;
- Operating under a sound ICF granting process;
- Maintaining an appropriate ICF portfolio administration, measurement and monitoring process; and
- Ensuring adequate controls over credit risk.

2. Market Risk

Markets can be sensitive to highly variable supply and demand conditions that may directly affect the borrower's capacity to repay where the expected price at the end of the ICF term is significantly lower than the expected price at the time the ICF was first issued. Similarly, prices on business inputs may fluctuate such that increased cost of fuel, seeds, fertilizers, agro chemicals and farming services, labor etc. may reduce or eliminate expected profits at the end of the ICF term. In order to access and control market risks, the IIFC should closely monitor market conditions and attempt to receive as much information as possible about price and demand fluctuations.

3. Policy/Regulatory Risk

Policy/regulatory risk is the risk associated with the potential change in the laws and/or regulations related to the particular industry of the borrower's business, occupation, country or security environment with potential to negatively affect the borrower's repayment ability.

4. Liquidity Risk

Extensive ICF programs can result in higher liquidity risk in the IIFC, especially if there is a high concentration of ICFs sensitive to seasonal demand. The IIFC's liquidity can become strained for example if crop losses or unfavorable market conditions result in the deferral of ICF repayments. Therefore the IIFC should correctly structure the ICFs repayment schedule (ensuring adequate cash inflow) and avoiding concentration of particular ICF types.

5. Transaction Risk

Transaction risk primarily results from the numerous documentation, inspection, control and monitoring requirements associated with ICF operations (including this ICF policy and procedure document). An inadequate understanding of these requirements, or failure to comply with them, may lead to serious weaknesses, including ultimate collection problems. When this occurs, it is most often the result

of the Credit Committee, management and ICF officers' inappropriate assumptions about a borrower's business plan, budget or his/her capabilities. Therefore internal training/education programs directed to improving the knowledge and skill levels of the IIFC's employees and elected officials are crucial. Management should also periodically test the knowledge of the IIFC's policies and procedures by regular review with responsible officers and staff.

CREDIT COMMITTEE AUTHORITY

The Credit Committee is appointed by the IIFC's BOD and has the responsibility of acting on ICF applications subject to the restrictions set forth by internal policies, the IIFC's bylaws, and by the legislation which governs the operations of the IIFC. The Credit Committee has the authority to approve ICFs. The committee will meet no less frequently than weekly, but as often as necessary to approve ICFs in a timely fashion. It is the Credit Committee's responsibility to ensure that the approval, denial, and actual granting of all types of ICFs comply with this policy. The duties of the Credit Committee are as follows:

- The Credit Committee may, by majority vote, approve or deny any application for ICF that does not violate any provisions set forth in this policy.
- The Credit Committee shall hold meetings as the business of this IIFC may require however not less frequently than weekly.
- The Credit Committee shall inquire into the character and financial condition of each applicant to ascertain their ability to repay fully and promptly the obligations incurred by them.
- Subject to the limitations set forth in this policy, the Credit Committee shall ensure that any security furnished shall be adequate in quality and consistent with sound financing practices.
- Where the applicant is unknown, the Credit Committee shall consult, at pre-determined and limited cost approved by the BOD, the respective Legitimate Local Authorities to ask about the character of the applicants.

When acting on ICF applications, the Credit Committee shall consider the following factors:

- The amount and regularity of receipt of funds which the borrower(s) intend(s) to rely upon for payment.
- The borrower's other commitments and anticipated financial needs over the term of his or her obligation to the IIFC;
- The purpose of the ICF, keeping in mind the best interests of the borrower(s) and the IIFC both;
- The frequency and purpose of previous ICFs;
- Past as well as present credit experience with the IIFC, other financial institutions, and other creditors.

CREDIT COMMITTEE AND/OR ICF OFFICER DOCUMENTATION

The IIFC Credit Committee, ICF officer and the CEO will keep a record of all ICF requests approved and denied. The information for each ICF request should include: date of ICF, name of borrower and account number, purpose of ICF, amount of ICF requested and/or approved, collateral offered, date ICF was approved, date ICF was issued, or reason for denial (see Appendix #3 : ICF register logbook and Appendix #14: Resolution of approving committees). This will act to verify that an ICF is made according to the conditions set by this policy. ICF collateral will not be released until full repayment of the ICF. The Credit Committee shall review all modification of the original ICF terms and then provide recommendations to the BOD. The BOD will have the final decision making authority if the original ICF terms are modified. Modifications only take place in proven, documented and emergency situations.

ICF APPROVAL PROCESS

When all the necessary ICF documents have been obtained as described in the ICF Procedure section, the ICF request will be given to the ICF officer for preparatory work. All ICF applications that do not pass the evaluation process at the CEO's level will be automatically deferred and returned to the ICF officer. Every potential first-time borrower shall be required to be present during the scheduled Credit Committee meeting for interview. If a member has been shown to be a good payer in his/her previous ICF, or the ICF is fully secured by share or savings at the IIFC, another interview at this time may not be necessary. The interview process focuses on the member's ICF qualifications and the condition and value of the collateral (if any is offered to secure the ICF), in order to help the Credit Committee to make an informed decision. If the Credit Committee does not feel that they can approve an ICF as requested, they may make a counter-offer in which case the member has 7 business days to accept or reject the counter-offer.

ICF DENIALS

The member should be informed in writing of all ICF denials. The reason for the denial should be specifically stated. The written denial notice shall be made available to the member at the IIFC's office within 7 business days from the denial decision. Credit counseling will be offered to the member in the hope of improving his/her position so that he/she will be eligible for ICF consideration in the future.

ICF PAYMENT

The first ICF payment (including principal and admin charges) will be made within 30 days of granting the ICF in the majority of cases. An exception to this rule would be ICFs that are paid weekly, quarterly and via lump sum. Given the IIFC's liquidity needs however, the majority of ICF payments will be on a monthly payment schedule. In the case of agricultural ICFs, should the borrower's income not warrant monthly payments, then quarterly and lump sum payments of principal will be accepted. The administration charges however will continue to be paid monthly.

ICF payments will be accepted on any Islamic Investment and Finance Cooperative business day. Evidence of payment will always be by a written receipt (or a slip confirming payment from the borrower's share or savings account). A member may repay their ICF prior to maturity without any penalty being imposed.

COMPENSATING BALANCE

Borrowers should deposit the equivalent to 10 per cent for agricultural, personal, and business purposes of the requested ICF amount. This amount cannot be withdrawn until the ICF is fully paid. At the same time, the IIFC is eligible to deduct pledge savings of delinquent borrowers from the unpaid amount of their ICFs in order to disclose the real level of portfolio at risk.

REQUIREMENTS FOR CO-SIGNERS

The Credit Committee and/or ICF officer(s) should never ask for a co-signer if the primary borrower cannot demonstrate both the intent and the ability to repay the ICF. A co-signer can be accepted as an additional guarantor for the ICF repayment when there are concerns over the member's lack of credit history, their length of employment, or employment history/job stability. The co-signer should be financially more stable than the primary borrower, and clearly have the ability to repay all ICF principal and admin charge payments. Except as set out below, no member may have more than one co-signer per ICF. If more than one co-signer is necessary, it is considered doubtful that the borrower has the ability to repay the ICF. The exception is the case of Medium ICFs with amounts of up to US\$10,000. In these cases, the IIFC is required to have at least two guarantors to guarantee such ICFs. If applicable, the IIFC may also require the borrowers to present original property documents to the IIFC as collateral (i.e. in addition to the two guarantors).

The co-signer shall not be a relative or individual who is dependent on the primary borrower for their livelihood (e.g. the spouse is always a poor choice for a co-signer). If the primary borrower falls into difficulty, the spouse will usually suffer financially from the same problem and will similarly be unable to repay the ICF. An individual may not co-sign for more than one outstanding ICF unless they have shares or savings available to secure the ICF. The co-signer's ability to repay must be determined and supported by documentation such as: completed application, proof of income, disclosure of all debts, etc. The pledge of the co-signer shall be checked and signed by the city mayor or relevant equivalent position of authority. That said the IIFC is encouraged to register guarantors of ICFs as members of the IIFC to increase membership.

Who Are Qualified To Become Co-Signers?

The persons listed below can be qualified to act as co-signers provided they are willing to provide the information needed in the evaluation, to undergo credit investigation, and to take on the responsibility of a co-signer/guarantor.

- Any member in good standing who has the capacity to pay in cases where the primary borrower becomes delinquent.

- The nominated Borrower's employer if they are willing to implement a salary deduction scheme in cases where the primary borrower becomes delinquent.
- Any reputable person known to the borrower who has: a permanent source of income; is residing and permanently working within the area of operation; and has a higher creditworthiness than the primary borrower.

Who Are Not Qualified To Become Co-Signers?

The individuals listed below are not qualified to become the co-signers for ICF:

- The IIFC's employees and elected officials are not allowed to become co-signers for any member.
- Members/borrowers who become delinquent for three (3) consecutive installments are disqualified as co-signer. Such members can resume being co-signers where repayment of ICF is continued and the delinquent payment is recovered in full.
- A borrower's relative or any individual who is dependent on the primary borrower for their livelihood. (Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.)
- Staff of the National Association (as applicable).

Responsibility of a co-signer

- It is the primary responsibility of the co-signer to ascertain the credit standing of the member before signing the application for the ICF guarantee.
- The co-signer is equally liable for the ICF in should the primary borrower fail to repay his/her ICF.
- When a member's payment becomes delayed, the co-signer shall assist in the collection of the delinquent repayment.
- After completion of the collection efforts against the delinquent member (i.e. without any success and no later than in 2 months after the primary borrower becomes delinquent), the co-signer shall pay the outstanding ICF balance he/she guaranteed.

Protection of a co-signer

- Every ICF shall be supported by an analysis of the primary borrower and co-signer's repayment capacity.
- No ICF secured by the co-signer shall be processed and approved unless the co-signer is briefed on his/her responsibilities, and the credit standing of the primary borrower.
- Information regarding the eligibility or non-eligibility of intended co-signers shall be made readily available to borrowers.

- ICF processing personnel shall not endorse (whether formally or informally), any grossly delinquent borrower to a prospective co-signer, nor shall they refer names of prospective co-signers to the same.
- It shall be the responsibility of the Credit Committee and staff to inform and update the co-signer on the status of the ICF he/she has guaranteed.
- The IIFC is responsible for the strict implementation of the collection policies of overdue ICFs before requesting the co-signer to repay the ICF.

Member as co-signer

A Member who is a co-signer of a delinquent borrower will not be granted an ICF where the primary borrower fails to pay the ICF for three (3) consecutive installments.

SERVICE CHARGE

The borrower shall pay the service charge for ICF processing. A service fee of 1per cent of the ICF amount but not less than US\$2 shall be collected from the borrower prior to the ICF disbursement, or alternatively deducted from the ICF proceeds for each ICF disbursed.

PREFERENCE OF ICF PAYMENTS

Payments on ICF received from a debtor shall have the following payment preference:

- 1st – Service Charge Due
- 2nd - Admin Charge Due
- 3rd – Principal Amount Due

THE ICF PROCESS

The ICF process starts with the ICF orientation, which is conducted Daily, Weekly, or Monthly by the responsible ICF officer. During the orientation, the responsible officer distributes to potential borrowers all critical information pertaining to the ICF services of the IIFC, such as ICF purposes, ICF amounts, ICF terms, mark-up rates (i.e. admin charges), eligibility criteria, application procedures, required documentation, ICF underwriting procedures, required guarantees or collateral, monitoring and collections procedures, delinquency sanctions, and other information as required by the members.

Step 1: Accomplishment of ICF Forms

The IIFC's officials and employees shall not discourage any member from submitting an ICF application. All ICF requests must be received in writing on the approved ICF forms. Each time a member makes a request for ICF, he/she should fill out a new ICF application (Appendix#1: ICF Application Form). The borrower should include in the application form all personal information,

as this will be used as the source data for interview. The more information the borrower provides the easier to evaluate the application and come up with a sound decision.

Members shall submit the ICF application and attach the following:

- Certificate with applicant's picture and if possible endorsement from the Legitimate Local Authorities
- Photocopies of ownership documents of collateral offered (i.e. if any tangible property is offered as the security for the ICF)
- Photocopies of all documents related to the co-signer (i.e. co-signer pledge form, application, proof of income, disclosure of all debts, etc.)
- Photocopies of all documents related to the purpose of the ICF (i.e. business permits, National Identity Card, Certificate of Land or Livestock or Farm Ownership)

Step 2: Interview and Counseling

Except for deposit-secured ICF and members with excellent payment histories, every member submitting an application shall have an interview with the Islamic Compliant Financing Officer (ICFO) or the CEO in order to:

- Elaborate on the information in the application (i.e. name, residence & business/farm address, etc.),
- Verify the ICF need and purpose,
- Better understand the business, financial status, and sources of income of the applicant (from business, farming, livestock or employment)
- Provide credit counseling about the wise use of credit
- Determine applicant's reliability according to their personal history and references,
- Establish a personal relationship,
- Cross-sell other IIFC services and educate the member about the IIFC philosophy

Step 3: Credit/Background Investigation (CIBI)

It is not always possible to assume that what the borrower discloses is necessarily true, especially those experiencing financial problems. The responsible ICF Officer shall visit the place of business/farm to assess and validate the volume of daily transactions the business/farm has, and use the tools required to determine both repayment capability and credit worthiness. There must be enough data to work with, and doing evaluation on incomplete data would affect the reliability of the conclusion or interpretation about the borrower. It is critical to the borrower for the IIFC to have access to sufficient information since the approval or disapproval of the ICF is partially based on IIFC assumptions in the context of the facts gathered. Credit investigation should cover the following areas of concern:

- Credit history with the IIFC (i.e. this can be validated through the Core-Banking System)

- Credit history with other creditors (i.e. cross-validate information provided by applicants with stores, banks, suppliers, lessors or credit bureau if available)
- Investigation with the employer of the member (if employed)
- Family lifestyle (cross-validate information with relatives, friends, neighbors and legitimate local authorities)
- Investigation with the proof/certification of financial capacity of the borrower
 - Guarantees
 - Source/s of income
- Sketch plan of the borrower's & co-signor's shops (i.e. if they live in unplanned areas), farm and residence to be included on the back of collateral appraisal form (real property appraisal) (Appendix# 9 Collateral Appraisal Form)
- Pictures of borrower's & co-signor's shops, farm or livestock
- Pictures of borrower/s & co-signor/s together to signify their agreement
- Co-signor/s information sheet (Appendix#7) and Co-signor/s agreement (pledge) (Appendix #8), which is the legal instrument that holds the debtor responsible supported by co-signor/s picture/s together with the principal borrower and national ID

For the secured ICF, the collateral offered is also appraised using the Collateral Appraisal Form (Appendix#9). The ICF officer makes the appropriate recommendation/s in the Credit Investigation Report (Appendix#10) when and where applicable. If any adverse information prohibiting the potential borrower from the ICF receipt is learned at this stage, there is no need to proceed to the next step in the ICF process.

Step 4: Credit Risk Assessment and Evaluation

Determining an applicant's credit risk is the most important aspect of the credit evaluation process given the borrower's creditworthiness is the first line of defense against the ICF suffering loss. This analysis should be complemented by visits to the place of business or farm to assess the volume of daily transactions the business or farm has.

Because this is often difficult to analyse, the CEO, ICF Officer or Credit Committee (i.e. whoever has the most experience), should perform this task. The overall credit risk for each ICF applicant is determined through credit rating methodology, which is based on the "5Cs of credit" evaluation. The ICF officer should use the Credit Investigation Report (Appendix#10) to collect all requested information and assign ratings for each category.

The 5Cs of Credit involves the evaluation of the following key items of the borrower's creditworthiness: Character, Capacity, Collateral, Capital, and Conditions. To come up with the overall credit rating each category is weighted with these specific percentages: character is worth 25

per cent; capacity, 45 per cent; collateral/co-signer, 10 per cent; capital, 15 per cent; and credit conditions, 5 per cent.

1. Character (25 per cent) – Character is one of the most important “C’s”. It covers the “people” aspect of lending. The IIFC should assess the borrower’s business experience, business and personal references, and personal credit and integrity. The member’s reputation is the traditional criterion the IIFC will use to judge the potential borrower. In determining someone’s character, the following information should be analyzed:

- Length of membership
- Credit history with the IIFC and other financial institutions
- Length of residence
- Reputation in the community and with other organizations
- Family status – number of dependents
- Lifestyle and standards (i.e. how much they value thriftiness & savings, spending habits, people living beyond their means, bad habits/actions: e.g. involvement in drugs, gambling, alcoholism and other illegal activities)
 - Relationship in the family
 - Other personal references

Data Validation:

- Repayment records and length of membership with the IIFC can be validated through core-banking system data.
- Repayment records from other financial institutions are hard to validate if there is no official inter-financial information exchange to check the borrower’s credit history. Hence, the ICF officer should be very skillful in cross-validating information provided by the borrowers with other sources such as neighbors, business associates, and legitimate local authorities.
- Residency can be validated through interviews with key legitimate local authorities (tribal elders), if any.
- Moral standing (i.e. respectability and relations with family and community) can be obtained by interviewing neighbors and individuals who are known to have knowledge of the applicant). The requirement on positive local elder’s certification is a response to this data requirement.

2. Capacity (45 per cent) – represents the borrower’s ability to repay the debt. Does the member have the financial capacity to repay the ICF? The IIFC should review

historical and projected financial performance to determine whether or not the borrower can repay their ICF obligation. The borrower's cash flow must meet a ratio above the proposed debt repayment to ensure repayment (i.e. even if there is a decline in performance). The borrower shall have enough capacity to fully repay the ICF in cash so the IIFC is able to fund additional ICF demand, savings withdrawal, and the payment of operating expenses. To assess this, the following should be reviewed:

- Length and stability of business/employment
- Purpose of the ICF. Will it be used for income-generating activities?
- Disposable income (See Appendix#4 Statement of Income and Expenditures):
- {Total income - Total Expenditures & Cash Outlays - Contingencies (20per cent of Total Expenditures & Cash Outlays)}

The resulting value shall then be used to calculate the Adjusted Debt Capacity. (Note: The calculation should include all business and family expenses of the borrower. The borrower will always cover personal expenses prior to payment to the IIFC).

- Trend of the business/personal income. Has it grown over past years?
- Does the requested ICF repayment plan correspond with the borrower's cash flow (payback period)?
- Is the Return on Investment (ROI) of the business adequate to meet the payment requirements?
- Adjusted Debt Capacity calculation. The resulting value must not exceed the ICF monthly amortization.

ADJUSTED DEBT CAPACITY CALCULATION - The declared net income or net disposable income of the borrower should be adjusted for: (1) unforeseen events or circumstances that would reduce the applicant's income or increase his expenditures (e.g. illness, other household emergencies, possible net income reduction due to unforeseen events); (2) undeclared ICFs or borrowing of the borrower: and (3) errors in the assumptions or estimates used in preparing the applicant's Profit and Loss Statement and the Source of Income and Expenditures Statement. The adjusted Net Income or Net disposable Income is referred to as "Adjusted Debt Capacity". The rate used to adjust the applicant's debt capacity is referred to as "Adjusted Repayment Capacity Rate" (ARCR). The ARCR used is 35per cent. The formula used to compute the applicant debt capacity will depend on the mode of payment of the borrower as follows:

- For monthly, Consolidated Net Monthly Income multiplied by 35per cent
ARCR = ADJUSTED MONTHLY DEBT CAPACITY Unclear
- For weekly, Consolidated Net Weekly Income multiplied by 35per cent
ARCR = ADJUSTED WEEKLY DEBT CAPACITY.
- For product cycle, Consolidated Net Income multiplied by 35per cent ARCR
= ADJUSTED DEBT CAPACITY AFTER THE PRODUCT CYCLE.

If the result of the computation is lower than the required amortization of the ICF amount applied by the borrower, the ICF officer should not automatically disapprove but rather make some recommendations to the borrower as to the proper way to resolve the situation. The options would be:

Option 1: If the income considered is not enough to cover the repayment terms of the ICF, expand to include undisclosed other income of the borrower as applicable (Note: still subject to verification).

Option 2: Ask the borrower to provide collateral aside from co-makers.

Option 3: Reducing the amount of the ICF according to his/her adjusted debt capacity.

For business ICF, it is often difficult to verify income especially where there are no financial records. However, to analyze the borrower's business activities the ICF officer can review monthly sales and expenses in the form of:

- Sales receipts
- delivery receipts or inventory list
- utility payments
- rental payments (if applicable)
- Business Profit & Loss statement (i.e. P&L, see Appendix#5) showing the business/farm net income of the borrower to be accomplished by the borrower who is engaged in business/farming. The P&L statement shall be prepared and signed by the applicant.
- Consolidated Statement of Income & Expenditures (see Appendix#4) is a detailed illustration of the income and expense of the borrower including both business and personal income and expenses. The business net income is transferred from the Business Profit and Loss Statement (i.e. Net Disposable Income must not be bigger than the monthly amortization or liquidity ratio [liquid asset/liquid liability]. This ratio is ideally 1:1
- Income Statement & Balance Sheet (for ICFs amounting US\$10,000 and above)
- Bank Statements (six months to 1 year)

Data Validation:

- Determine the costs of goods sold for the business, inputs and production yields for agriculture by having an updated price list of costs:
 - for business-cost of purchases, labor, materials, supplies & others
 - for agriculture-cost of inputs (fertilizers, pesticides, seeds, labor)

This can be shown in the Business Profit & Loss Statement – Appendix#5. ICF officers should have this data given a miscalculation on prices of costs on sales and inputs can impact profitability of the borrower and therefore his/her payment capacity.

- For agriculture, it is also necessary to have ‘agri-efficiency’ indicators that could be used as a basis for calculating the gross incomes of farming enterprises. These efficiency indicators, which can be obtained from the Ministry of Agriculture of [insert country name] can include the following:
 - Crop yields (in kilograms) per hectare
 - Expected weight of a particular livestock after a certain period of time for ICFs on cattle or sheep fattening
 - Average milk output per cow for ICFs on dairy farming
- There is a need to have an updated list of prices of products and ‘agri-commodities’. For business, this can be obtained from the owners themselves and from neighboring competitors. For ‘agri’, the MAIL has a market information system that could be useful in calculating gross sales and net incomes for certain ‘agri-commodities’ such as wheat, rice, corn, vegetables and livestock. Since prices may vary among provinces, market information on prices should be secured from provincial offices. The same principle (i.e. using market information systems/updated price lists) could be used for other types of ICFs also.
- For service type ICFs, it is useful to have an updated price list of the services being offered. This price list could be developed by interviewing a number of providers for the same service (e.g. tailors, haircutters, drivers, etc). Data can then be triangulated with a number of known customers for a particular type of service.
- Experience shows that costs of input and price of output calculations are where errors can occur in the ICF appraisal process. Thus, it is very important that the data sets mentioned should be on hand to guide the accuracy of profitability estimates.
- For salaried applicants, use-certified gross salary less personal & household expenses.

3. Collateral/Co-signer (10 per cent) – these are guarantees or specific assets pledged to secure the requested ICF. The borrower can be required to provide it as

the secondary source of repayment. The collateral or co-signer requirement reduces the risk exposure, but do not repay the ICF. If the borrower's character and capacity are weak, collateral will not make a good ICF. Obtaining collateral is a means of gaining control over some of the borrower's capital. The following collateral types can be considered and accepted as additional security for the ICF repayment:

- Savings and deposits - up to 90 per cent of deposit amount
- Jewellery - up to 80 per cent of assessed value
- Real estate - Fair Market Value multiplied by 80 per cent equals the assessed Value which multiplied by 50 per cent then equals the ICF Value

- In accessing the value and the adequacy of the collateral, the IIFC must ensure that:
- The collateral can be easily converted into cash at the appraised value, i.e.:
 - That the value of the collateral is conservative.
 - There is a market for the collateral should it have to be sold to repay the ICF.
- The requested ICF term corresponds with the useful life of the collateral.
- Where the value of the collateral is greater than the requested ICF amount - that this meets the IIFC's policy on valuation.
- The collateral value can be determined by a reputable source.
- It can be easily repossessed to pay off the ICF. Note: It is often it is difficult to gain entrance to someone's home to repossess household furnishings.
- That the IIFC has clear title to the collateral, free from lien and encumbrances
- The borrower or co-maker's spouse has a will and consents to provide the asset as the collateral for the ICF.
- The co-signer meets the requirements set in the Section 16 of this policy.

For Medium ICFs with amounts of up to US\$10,000, the IIFC must ensure they are safe investments. Specifically, the IIFC is required to have at least two guarantors to guarantee such ICFs. If applicable, the IIFC may also require the borrowers to present original property documents to the IIFC as collateral, in addition to two guarantors.

Data Validation:

- The usual practice is to have shopkeepers as co-makers. A careful inspection of the shop could provide data on whether the worth of the co-makers' business is equal or more than the ICF being applied for.
- Always perform an inspection of the collateral to insure that it is in good shape and can be sold for at least the amount of the ICF.

- Often it is difficult to obtain documents (there could be none) as to whether the co-maker's business or assets are free from encumbrances or liens. Thus, the ICF officer has to rely on public knowledge, preferably from close business associates, key leaders in the sector or Legitimate Local Authorities.
- The consent of the spouse should be received in writing.
- The co-signer's application and pledge should be received in writing (Appendix #7 and #8) and analyzed/verified by the ICF officer.

4. Capital Accumulation (15per cent) – This is the borrower's net worth (total assets less total liabilities). In assessing capital accumulation it is necessary to determine whether:

- The member has made steady, even if slow, growth in assets and that the profit earned is reinvested (or alternatively is every penny earned immediately spent?),
- The member saves consistently at the Islamic Investment and Finance Cooperative,
- The member saves for reasons other than the ICF requirement deposit,
- The net worth of the borrower (i.e. their total assets less total liabilities) is favorable and positive.

Data Validation:

- In many of cases, borrowers only deposit money with the IIFC for ICF purposes (i.e. compensating balances, pledged savings, etc). Core-Banking System records should be used to validate the savings record of borrowers in the IIFC. Financial/bank records (statements) serve as the basis on which to validate savings in other financial institutions. These and a list of all other borrower's assets less all liabilities can establish the borrower's capital status.
- With regard to the asset base of borrowers, this could be challenging to verify if assets in [insert country name], particularly land, have no concrete proof of ownership (e.g. land titles). A practical way of validating claims to assets would be to triangulate information presented by the borrowers again with the Legitimate Local Authorities, or key business leaders in the village where the borrower resides. For example, a farmer's claim that he is actively tilling ten hectares of wheat could be validated by the agri supply shop-owner where he buys seeds, fertilizers and chemicals (the amount of farm inputs could indicate the actual farm size cultivated). Likewise, this can also be validated with the people from trading centers where he sells his farm produce.

5. Credit Conditions (5 per cent) – This refers to the economic situation at the time of the ICF request, its impact on the borrower’s business, and its capacity to repay the requested ICF. The IIFC’s liquidity at the time of the member’s ICF application also impacts the ability to make the ICF. It is important to remember that extenuating circumstances can affect the borrower’s ability to meet a new financial obligation. These can range from a labor strike to personal circumstances such as an illness in the family. In assessing the credit conditions the following should be addressed:

- Is the ICF within the limits established in this policy?
- Is the borrower’s business environment comparatively favorable?
- Are the weather condition supporting or disrupting the borrower’s business?
- Does the borrower have the necessary stable market for sales of its products?

Data Validation:

- For business, observing carefully the location, seasonal demand, and its target market (i.e. whether viable or not) as to the duration of the ICF can validate this.
- For ‘agri-type’ ICFs, the ICF officer needs to receive the required information from the Ministry of Agriculture of [insert country name] that can provide a more accurate forecast of expected climatic conditions for the upcoming production periods. Likewise, data from the ministry may indicate the expected volume of harvest for a particular crop, and this in turn may give an indication of the expected market prices when harvest is ready, i.e., law of supply and demand interplay.

Credit Rating - is used to determine the probability of the borrower to pay the ICF. The credit rating is determined based on the Credit Investigation Report (Appendix#10), which includes specific questions with corresponding points for each category of the 5Cs evaluation. The credit rating is calculated as the total of all points after the ICF officer answers on all applicable questions based on his analysis.

The credit rating must be used by the ICF Officer for all types of ICFs (i.e. to rate the borrower and should also serve as the basis for the decision of the IIFC’s Credit Committee). This credit rating shall serve as a guide to categorize the borrower’s repayment capacity and probable needs regarding additional collateral requirement and level of supervision.

The below table describes the credit rating categories based on the total score summarized from the Credit Rating Scale:

Credit Rating	Description	Decision/Requirements
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70 per cent and Below	Very high risk	Disapproved, since it has high probability of failure to pay the ICF.
71 per cent to 80 per cent	High risk	Approved, but needs collateral/co-signor/s and close supervision.
81 per cent to 90 per cent	Average risk	Approved, but needs any collateral/co-signor/s and sustained supervision.
91 per cent to 100 per cent	Low risk	Approved with or without Collateral except for US\$10,000 or greater ICFs, supervision is minimized

The ICF recommendations on ICF approval/denial/or deferral should be based on the Credit Investigation report and overall rating of the ICF application.

Step 5: ICF evaluation and analysis

Data gathering takes more time than the actual analysis. After the gathering and analysing of the data, the ICF officer shall make the following steps in order to come up with a sound decision as to whether to endorse the ICF application to the CEO for final recommendation and/or further presentation to the Credit Committee.

- Determine the amount of ICF that the borrower needs.
- Determine how much amortization amount he/she is going to pay either daily, weekly, semi-monthly or monthly for his/her ICF.
- Calculate the applicant's adjusted debt capacity as shown in Credit Investigation Report
- Analyse the ICF application for compliance with the criteria set by this policy and other internal documents.
- Make sure that all documents required for ICF approval are valid and available.
- Develop the recommendations for the CEO and the Credit Committee on the approval or denial of the ICF application, including sustainable arguments for either.
- Fill out ICF work-up sheet that summarizes the ICF request (see Appendix# 12) based on all supporting forms and information.

The ICF officer should then endorse the ICF application, and together with all supporting documents submit to the IIFC's CEO for review and final recommendations/endorsement. ICF applications which do not pass the screening process at CEO level are returned to the ICF Officer with the appropriate recommendations. Disapproval of ICF should always be stated in the

Resolution of Approving Committee Form (Appendix#14). In case of disapproval, the ICF Officer and CEO should discuss the reasons and both agree on the matter to avoid any future conflict.

Contents of an ICF folder for presentation to the Credit Committee:

The ICF file (following verification by the ICF officer), at a minimum, must contain the following verified information and should be in tabled in the appropriate order before presenting ICF proposals to the Credit Committee for approval:

Application

- ICF application. The application should be properly completed and signed by the Accountant, confirming that borrower's compensating balance is in compliance with the requirement (i.e. 10per cent for business agriculture ICFs, refer Appendix #1)
- NID Card
- Local elder Endorsement/Certificate (if any) (Appendix #2)
- Picture/s of the borrower and co-guarantor (preferably together in 1 picture) & in their shop/farm.
- Certificate of Land/Livestock/Farm Ownership
- Photo copies of borrower's & co-signor's business permits (for business ICF)

ICF analysis documents:

- Business Profit & Loss Statement of Borrower – Farming (Lump) (Appendix #5-2)
- Business Profit & Loss Statement of Borrower – Livestock (Appendix #5-3)
- Cooperative ICF Work-up Sheet (Appendix #12)
- Co-signed Information Sheet (Appendix #7)
- Co-signer Agreement including both signature and finger prints (Appendix #8)
- Assignment of Deposits & Share Capital w/ Authority to Debit with both signature and finger prints (Appendix #11)
- Result of Interview with References (Appendix #6)

Credit Rating & Evaluation and Collateral Appraisal:

- Collateral Appraisal (i.e. With sketch plan of borrower's shop, farm or residence included on the back of documentation and calculation of the overall rating) (Appendix #9)

- Credit Investigation Report (Appendix #10)

Recommendation & Approval

Resolutions of Approving Committees (ICF Officer, CEO, Credit Committee)
(Appendix #14)

Step 6: Approval of ICF by the Credit Committee

It is the Credit Committee consisting of 3 members that is designated to approve or disapprove ICF proposals. Every ICF request should be presented by the ICF officer and CEO and supported with all required documents, so that questions and clarifications can be easily addressed and responded to and delays avoided. ICF applications that do not have a written recommendation from the CEO will be automatically deferred and returned to the ICF Officer. When approving ICFs, the following must be strictly followed:

- For ICFs up to US\$4,000 – Resolution of Approving Committee must include the resolution of the ICF officer, CEO and at least 2 of the 3 members of the Credit Committee
- For ICFs above US\$4,000 - Resolution of Approving Committee must include the resolution the ICF officer, CEO, at least 2 of the 3 members of the Credit Committee, and 1 representative of the National Association.
- For Directors, Officers, Staff and other Related Interests (DOSRI) accounts, relatives of the ICF applicant in the committee should exclude themselves from the evaluation and approval process. ICF applications of any member of the Credit Committee should be approved by the majority of the members of the BOD. Likewise, ICF applications of any member of the BOD should be approved by the majority of the Credit Committee. (Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.)

It is the responsibility of management and the officials to use members' savings and shares wisely, and because of this, certain ICF requests will need to be denied. The ICF applications may be disapproved where the applicants or co-signers exhibit any of the following characteristics:

- Member or co-signer has a bad credit history;
- Doubt about the quality of personal references;
- Frequent job changes;
- Insufficient payment capacity to repay the ICF in its entirety;
- Inability to verify the borrower's income;
- Current delinquent ICFs or obligations at the IIFC or other financial institution;

- Collateral value or compensating balance is not adequate;
- Members who do not wish to or cannot disclose information about their financial status;
- Members who provide false information in their ICF application;
- Members that have caused the IIFC or another financial institution to incur a loss;
- Members that have a questionable reputation;
- Members with personal and/or a family problems;
- Unprofitable business or occupation;
- ICFs to be used for granting sub credits (usury);
- ICFs applied for by a member to be used by a third party; and
- ICF to be used for speculative activities.

If the ICF application is deferred or disapproved, it will be returned to the CEO and then to the ICF Officer, with the Resolution of Approving Committee Form stating clearly the reason/s for ICF disapproval and/or the remedial measures to be complied with (including applicable deadlines), duly signed by the Credit Committee and other responsible officers/committees.

If the Credit Committee does not feel that they can approve an ICF as requested, they may make a counter-offer and in such circumstances the member has seven (7) business days to accept or deny the counter-offer. When a counter-offer is given, the offer will usually be for a smaller ICF amount and/or include more collateral to better secure the ICF. This may also occur where the IIFC does not have enough liquidity. Members shall be notified regarding the status of their ICF request within seven (7) business days after the Credit Committee made the ICF decision.

For deferred and disapproved ICF, the CEO will explain to the member the reason(s) and/or remedial measures to be taken. The member should be informed in writing of all ICF denials. The reason for the denial should be specifically stated. The written denial notice shall be made available to the member at the IIFC's office within seven (7) business days from the denial decision. Credit counseling will also be offered to the member in the hope of improving his/her position so that he/she will be eligible for ICF in the future.

Step 7: ICF Documentation

If the ICF is approved (i.e. taking into account the requirement for all applicable ICF documents to be included in order and properly signed with fingerprints), the majority of the members of the Credit Committee will affix their signatures in the Resolution of the Approving Committee Form. The following actions must be completed at this time:

- ICF officer will inform the member-borrower (MB) of the schedule of release and ask for additional requirements if any, based on the resolution of the approving committees.
- ICF officer will require the borrower to deposit at the IIFC the compensating balance (10 per cent for business and agriculture, community group and

- salary ICFs) – i.e. where this was not done prior to the ICF review by the relevant approving committees.
- ICF officer will prepare the ICF Repayment Schedule (to be generated by Core-Banking System) that should be given to the member-borrower upon ICF release.
 - ICF officer will prepare the ICF Promissory Note (Appendix #13) that should be signed and fingerprinted by the borrower (including any other legal documents), which must be duly signed and fingerprinted before releasing the ICF proceeds.
 - For control purposes, the Accountant must be the officer who prepares the Disbursement Memo or Cash Disbursement Voucher (CDV) for individual borrowers based on the approved ICF terms stated in the Resolution of the Approving Committee Form (Appendix#14).
 - The Accountant must ensure that the required compensating balance is deposited by the member-borrower, and confirm it with signature on the ICF Application Form (Appendix#1). The Accountant also must issue a Pledge Share Savings passbook and ICF passbook, signed and checked by the Accountant/cashier and CEO.
 - The CEO will review all the ICF release documents, approve the booking of the ICF in the Core-Banking System and sign the CDV before submitting it to the Accountant and cashier for the actual release of ICF funds.
 - The CEO and the ICF Officer shall determine who among the borrowers are to be released through Agent-Based Cash Murabahah (ABCM) or Classic Murabahah (CM) systems after validation of information regarding the availability of supply of items that borrowers wished to purchase from their ICF proceeds.

Step 8: ICF Release

Before the actual ICF release (and during the time in which the Accountant will be engaged in preparing the CDV to be signed by the borrower), the ICF Officer and CEO will conduct a Pre-ICF Release Orientation, emphasizing the wise use of their borrowed money and their ICF obligations. This will include the effect of late payments on them and to the IIFC both. They will also discuss the ICF release procedures set up for the two fund disbursement systems that the IIFC is using – i.e. the ABCM and the CM systems.

For Agent-Based Cash Murabahah (ABCM)

- In cases where the needs/goods, etc that members wanted to purchase from their ICF proceeds are not available locally (e.g. found within the city), , they are provided with ‘Agent-based cash’, but are however requested to confirm that the actual usage of ICF funds by way of invoices for all items they have purchased.

- The Member-Borrower should then sign the Agency agreement where they will be considered as the agent of the IIFC. The member will also sign a Promissory Note and other ICF release documents inclusive of fingerprints (i.e. Cash Disbursement Voucher, etc.). After all documents have been completed and signed as required, the Cashier will release the ICF funds to the member-borrower and post the ICF amount in the borrower's ICF Passbook. The Accountant should then post the ICF amount to the Individual ICF Ledger in the Core-banking system. Invoices have to be provided within three months from disbursement; otherwise the IIFC can terminate the ICF agreement and claim premature repayment of ICF funds.

For Classical Murabahah (CM)

- The Classical Murabahah means “buying goods instead of releasing cash”. In this system the initial procedure starts during the membership orientation, emphasizing that the IIFC will not provide ICF in cash but instead will purchase the required items for the business of the member-borrower. The IIFC will charge its mark-up on the items purchased by the IIFC based on the member-borrower's request, not on the amount of ICF funds (cash) being released. For example, the IIFC buys items for the member-borrower for the amount of US\$500 then sells it to the member-borrower at US\$630 payable within 6 months or less. This is one of the permissible ways of financing according to Shariah Law.
- On the release day (following completion of ICF documentation verified and confirmed by the Accountant and CEO), the Cashier pays the amount required to satisfy the request on Classical Murabahah ICF to the ICF Officer in the presence of the member-borrower. The ICF officer and member-borrower together then visit the store where the requested items are being purchased to pay for the cost of those items. The ICF officer then submits the Official Receipt to the Cashier as proof of purchases made, whereupon the Cashier files it in the ICF folders of the member-borrower. For items that are delivered by the suppliers, the Cashier will pay directly the cost of the goods sold commensurate to the ICF amount to the suppliers upon presentation of the Official Receipt (i.e. after the member-borrower has signed all the ICF release documents). The official receipts should be also signed (and/or fingerprinted) by the member-borrower in order to confirm the actual receipt of goods purchased by the IIFC. Note: Selection of store, pricing and items should be done by the member-borrower based on his/her agreement with the suppliers, and not by IIFC staff.
- The Cashier will post the ICF amount to the borrower's ICF passbook. The Accountant should then post the ICF amount to the Individual ICF Ledger in the Core-banking system.

- The ICF Officer will file the individual ICF folders in a systematic manner while the Cashier files all the ICF release documents. The Accountant checks the completeness and accuracy of these documents.
- The ICF Officer will then verify that the ICF proceeds are actually to be used for the purpose stated in their ICF applications, and checks that the goods or equipment have been purchased at the lowest possible price.

Step 9: ICF Monitoring and Collection

Ongoing monitoring is a key component of the vigilance necessary to ensure safe and sound ICF operations. This includes not only monitoring of the borrower's operations and financial condition, but also independently keeping up with market events that may affect the borrower. Naturally, the IIFC should intensify its inspections and other monitoring activities for those ICFs carrying higher risk when there is reason to believe that a borrower's financial condition or the pledged collateral may be deteriorating.

Inspections and evaluations of the borrowers' operations (business) will be performed by qualified IIFC officers, typically the ICF officers who recommended the ICF for approval. However, all delinquent ICFs recommended and monitored by the same ICF officer will be monitored by another qualified IIFC officer (i.e. Collection officer and/or CEO). Moreover, as with any confirmation process, greater credibility is given to the results of monitoring and evaluation if inspections are conducted on an unannounced basis. The ICF officers must be aware of the market conditions in their area, which gives them a sense of what to expect of the borrower's business conditions, and should be able to compare the particular borrower's business performance to the average performance in the area.

Monitoring that goods or equipment purchased and ICF funds are being used in compliance with the ICF agreement together with ensuring that ICF will not become delinquent are the most challenging parts in the whole ICF cycle. The IIFC has to take the importance of monitoring and collection into account in recruiting for those who will be responsible for monitoring and collection – i.e. Collections Officers. Collections officers will perform ICF monitoring and collection in close coordination with the CEO and ICF Officer recommending the original ICF for approval. The principle steps of ICF monitoring are listed below:

- Every week the CEO and ICF Officer will monitor the ICF repayment schedule generated by the Core-Banking system. This should include all ICF expiration and installment dates planned for any given week. The repayment schedule is generated based on the individual Member-Borrower's ICF Repayment Schedule and ICF Releases Report entered in the Core-Banking System. The ICF officer (or Collection officer) will contact the individual member-borrowers at least 5 days before their due dates to remind them of their repayment schedule.
- From those member-borrowers that are not able to come to the IIFC office to pay their ICF installments, the payment will be collected by the Collection

Officer at their homes or business sites (if the situation warrants). A provisional receipt with serial number will be issued to the member-borrower if the payment is collected outside of the IIFC's office. The official receipt will be issued after the Cashier receives the payment and validates it in the Core-Banking system. Issuance of any Official Receipt outside of the IIFC will only be allowed with proper daily monitoring. There should be only one (1) OR booklet assigned for use outside of the IIFC, which should be surrendered by the Collection Officer at the end of the day and reconciled by the Cashier and Accountant to ensure strict monitoring.

- The CEO will monitor the collection results on a daily basis and if necessary (especially with delinquent borrowers) visit the borrower (i.e. alone or together with the Collection Officer) with any missed payment details and request the co-signors to assist them in collecting the repayments from the delinquent principal borrowers they have guaranteed. The IIFC collects ICF repayments from the co-signors in cases where the principal borrowers will not be able to pay their ICF as specified in the ICF contract. Detailed procedures regarding collection from co-signors are included in the IIFC's "Collection policy and procedures".
- On a daily basis the Accountant will prepare an ICF Collections Monitoring report based on the individual ICF repayment schedules in order to monitor ICF repayment performance and to determine who amongst the member-borrowers have failed to make timely and full payments.
- The collection process shall be a team effort; therefore the monitoring report will guide not only the CEO and Collection officer, but all IIFC professional staff to support the taking of appropriate actions on borrowers who fail to pay on time.
- ICF delinquency should be monitored through the Aging Analysis that can be generated by the Core-Banking system, prepared by the ICF Officer or CEO on a daily, weekly or monthly basis. This document should be submitted to the National Association on the 15th and 30th of each month for external monitoring.

Detailed principles and procedures for ICF collection are included in the IIFC's "Collection policy and procedures".

ICF INTERNAL CONTROLS

Given it is often difficult to have sound internal controls due to the limited number of employees, it is important wherever possible to limit opportunities for fraudulent or illegal activities. With this in mind the following internal controls are suggested in addition to the above policies and procedures.

- All ICF files and/or original legal ICF documents should be kept in a safe, secure, fireproof area.
- The ICF officer, CEO, and Credit Committee will record all ICF requests approved, denied, or responded to via a counter-offer. The information for each ICF request should include: borrower account number and name; date of ICF request; amount of ICF request; ICF purpose; ICF co-signer name and account number; ICF collateral; ICF term and admin charge rate (including the date the ICF was approved); and, counter-offer given or denied.
- Under no circumstance is anyone but the Credit Committee or BOD to modify an ICF's original terms and conditions.
- ICF officers, Credit Committee and Board members shall sign all ICF approval minutes for which they were part of.
- All ICF applicants must pass the interview with the ICF officer, CEO and/or Credit Committee prior to ICF approval. This will help to avoid fraudulent ICFs.
- All ICF funds to be disbursed and/or assets transferred personally to the member-borrower require confirmation of the receipt of funds and/or goods with signature and fingerprints.
- All ICF contracts should be numbered and the notes used in sequential order. All ICF note numbers shall be recorded in an ICF register along with the borrower's name.
- Each borrower is to have his/her own ICF file where all ICF paperwork is retained. The member's name and account number are to be shown on the outside of the file. The files should be organized by the borrowers' last name. ?family name?
- Cases where the ICF repayment is not made directly at the IIFC cash desk shall be limited, and in all such cases shall be carefully reconciled between the IIFC and member-borrower.
- The Accountant should compare the ICFs issued with the ICF approval list on a daily basis so no ICF is issued without the proper approval and authorization of all responsible IIFC officers and committee members.
- CEO and responsible ICF and Collection officers shall monitor the ICFs repayment daily. The Accountant shall provide the ICF repayment report generated by the Core-Banking System based on individual ICF repayment schedules.
- As much as is possible, the ICF officer responsible for ICF underwriting and analysis shall not be involved in the ICF collection process.
- As much as possible, the CEO and responsible Credit Committee members shall attempt to make personal unannounced visits to delinquent member-borrowers in order to check the ICF status information provided by the Collection officer.

- The Supervisory Committee should periodically review the ICF approval minutes to ensure that no ICFs have been granted to fictitious people.
- It is important that officials and employees are aware of the makeup of the ICF portfolio and periodically analyze it. Considerations when analyzing the portfolio include:
 - Total number and amount of ICFs
 - Number of ICF denials
 - Ratio of ICFs approved to applications received
 - Average ICF size
 - Number and amount of short, medium, and long term ICFs
 - Number of ICFs and percentage according to ICF collateral and type
 - Ratio of borrowers to members
 - Ratio of ICFs to assets
 - Ratio of ICFs delinquent more than 1 month to total ICFs
 - Ratio of net ICFs charged off (i.e. total ICFs charged off for the period less any ICF recoveries) to outstanding ICFs
 - Number and amount of delinquent ICFs per individual or body with ICF approval authority

In addition to the above review, the Supervisory Committee (SC) will (on a quarterly basis) review a sample of recently approved ICFs to ensure all policies and procedures have been followed.

ICF PRODUCTS, DESCRIPTION, TERMS AND POLICIES

A summary table of ICF products and their corresponding terms and conditions approved by the BOD of the IIFC is attached as Appendix 1 to this policy, and shall be posted in a prominent place in the IIFC and its branches for the convenience of members.

AGRICULTURAL ICF – financial assistance extended to qualified members for agricultural purposes. This may include working capital to buy seeds, fertilizer and to pay for labor of farm workers.

ELIGIBILITY TO BORROW

- Has attended the membership and lending orientation

- Has complied with the required Compensating Balance (Share Savings) of 10per cent of the amount applied for. For those members who lack the capacity to meet the 10per cent CB, they can comply for a lesser percentage of the amount applied for provided the status of low capacity of the member shall be identified by the LLAs, who have knowledge of the member in addition to endorsement from the Credit Committee of the Board.

LOANABLE AMOUNT

The ICF officer/Credit Committee shall determine the amount based on the 5 Cs and the credit worthiness of a borrower. This amount however shall not exceed 5x the member's savings & share capital combined (10x in cases where low capacity to repay is proven), and a maximum of US\$500 (for 1st time borrowers). Succeeding ICFs will be based on the borrower's capacity to repay. For such purposes as farming machinery for example, the maximum ICF amount can be up to US\$10,000.

SERVICE FEE AND ADMIN CHARGES

- A service fee of 1per cent of the ICF amount but not less than US\$2 shall be deducted from the ICF proceeds.
- Admin charges or "mark-up" is 2per cent per month based on the diminishing balance to be paid monthly. However, where the borrower has no other source of income to pay the admin charges monthly as determined by the ICF officer, a lump sum payment shall then be granted.

TERMS AND MODE OF PAYMENT

- The term of the ICF shall be based on the production cycle but not to exceed eight (8) months. For such purposes as farming machinery, a maximum ICF term can be up to 24 months.
- Mode of payment of principal is Lump sum for short-term ICFs. For long-term ICFs, regular payments should include both mark-up and principle.

ICF SECURITY

The amount of ICF shall be fully secured by:

- Pledges of co-signer(s), to be checked and signed by either the city mayor or reputable witnesses
- Endorsement from the local elders (if possible)
- Real estate mortgage
- Jewellery
- Deposits (i.e. Pledge Savings, Regular Savings and Share Capital)
- Or a combination of the aforementioned (i.e. whichever is applicable and acceptable to IIFC).
- At least two guarantors are required to guarantee medium ICFs. If applicable, the IIFC may also require the borrowers to present original property documents to the IIFC as collateral, in addition to two guarantors.

ICF RENEWAL

- The borrower may apply for ICF renewal after full repayment of the current ICF.
- Three (3) consecutive non-payment of installment/amortization on any current ICF may disqualify the borrower from ICF renewal.

BUSINESS ICF – financial assistance extended to members engaged in business to generate additional income. The ICF may include working capital for inventories/stocks to be sold, salaries of the workers, and other overhead costs. For example Islamic loan provided to a grocery shop/convenience store.

ELIGIBILITY TO BORROW

- Has attended the membership and lending orientation.
- Has complied with minimum compensating balance (Share Savings) of 10per cent of the amount applied for Business ICFs.
- The applicant shall present proof/evidences that she/he is personally engaged in any of the following micro-enterprises for at least 6 months:
 - Merchandising store
 - Trading (buy & sell)
 - Photo shop
 - Furniture shop
 - Pharmacy

- Bakeshop
- Eatery/food shop
- Craft/Handicraft
- Beauty parlour/barber shop
- Motor/machine repair shop
- Transport service
- Tailoring/dress shop
- Fruit/food vending
- Construction/school supplies
- Other service provider

LOANABLE AMOUNT

The ICF Officer/Credit Committee shall determine the amount based on the 5 Cs and the credit worthiness of a borrower, but not to exceed 5x of their savings & share capital (6.7x in cases where the low borrower's capacity is proved) and the maximum of US\$500 (i.e. for 1st time borrowers). Succeeding ICFs will be based on the borrower's capacity to pay. Maximum amount approved should not exceed US\$10,000.

SERVICE FEE AND ADMIN CHARGES

- A service fee of 1per cent of the amount but not less than US\$2 shall be deducted from ICF proceeds.
- Admin charges or “mark-up” is 2per cent per month based on the diminishing balance to be paid daily, weekly, semi-monthly, or monthly.

TERMS AND MODE OF PAYMENT

- The term of the ICF shall be determined by the ICF Officer/Credit Committee based on the reasonable cash flow of the borrower, but shall not exceed six (6) months. Mode of payment may be daily, weekly, semi-monthly or monthly.
- For employees or salaried members having stable monthly salary income who want to apply for the ICF for an acceptable purpose, the maximum term of payment is twelve (12) months.
- For Medium ICFs the maximum term allowed is 24 months.

ICF SECURITY

- The amount of ICF shall be fully secured by:
 - Pledges of co-signer(s), to be checked and signed by reputable witnesses or the city mayor
 - Endorsement from the local elders (if applicable)
 - Real estate mortgage
 - Jewellery
 - Deposits (i.e. Pledge Savings, Regular Savings and Share Capital)
 - Or a combination of the aforementioned whichever is applicable and acceptable to the IIFC.
 - For Medium ICFs at least two guarantors are required to guarantee such ICFs. If applicable, the IIFC may also require borrowers to present original property documents to the IIFC as collateral, in addition to two guarantors.

VALUATION OF COLLATERAL

- ICFs secured by real estate mortgage must not exceed seventy per cent (70 per cent) of the appraised value of the real estate property. While the valuation for the land improvements and building shall not be more than 70 per cent of the appraised value less depreciation.

ICF RENEWAL

- The borrower may apply for ICF renewal after full repayment of the current ICF.
- Three (3) consecutive non-payment of installments/amortization of the current ICF may disqualify the borrower from ICF renewal.

COMMUNITY GROUP ICF (CG-ICF) – financial assistance extended to the group of farmers-members who have no access to individual agricultural ICF product due to lack of collateral to offer. For example five or more borrowers jointly receive a Tractor Islamic loan from IIFC.

ELIGIBILITY TO BORROW

- Must be a group of farmers (i.e. members of at least 5 individuals and not more than 10 individuals).
- Have all attended the orientation meeting and have elected a leader.
- Has complied with the share saving requirement which is 10per cent of the ICF amount as a compensating balance for the CG-ICF.

LOANABLE AMOUNT

- The ICF officer/Credit Committee shall determine the amount based on the 5 Cs and the credit worthiness of a borrower, but not exceed 5 times their share savings and not more than US\$500 for each client.
- CG - ICF as a group will determine the amount of ICF to be received by each individual CG-ICF client. Provided however that no individual in the group shall receive more than 20per cent of the total ICF granted.

SERVICE FEE AND ADMIN CHARGES

- A service fee of 1per cent of the amount but not less than US\$2 shall be deducted from the ICF proceeds.
- Admin charges or “mark-up” is 2per cent per month based on the diminishing balance to be paid monthly. However if the group has no other source of income to pay the admin charges monthly as determined by the ICF Officer, the lump sum payment shall be granted.

TERMS AND MODE OF PAYMENT

- The term of the ICF shall be based on the production cycle but should not exceed nine (9) months. Mode of payment may be daily, weekly, semi-monthly or monthly.
- Mode of payment of principal is Lump sum.

IN CASE OF DEFAULT IN PAYMENT

- If one individual borrower within a CG-ICF defaults, the other remaining members must pay the portion of the defaulted client;
- If the other CG-ICF members fail to repay the defaulted amount and the CG-ICF remains delinquent for more than 60 days, all members of the defaulted CG-ICF will be ineligible for further credit.

ICF SECURITY

- The amount of ICF shall be fully secured by group mutual guarantee. Meaning, if CG-ICF individuals fail to pay the other individuals within the CG-ICF, the group must pay the defaulted payment/balance.

ICF RENEWAL

- The group may apply for ICF renewal after full repayment of the current ICF.
- Three (3) consecutive non-payment of installments/amortization of any current ICF may disqualify the group from ICF renewal.

COLLECTION

- The CG-ICF Leader has the responsibility to collect the ICF payments of his/her CGL members and maintain the record book of the CGL members with all details and signatures;
- The CG-ICF Leader will then take the collected ICF payments and hand them to an IIFC cashier.

ICF FOR EMPLOYEES Processing, evaluation, documentation, approval and release for Salary ICFs follow the same procedures as for other ICFs. The following are the specific requirements for salaried employees to receive ICF services for agricultural or business purposes:

LOANABLE AMOUNT

- Only 35 per cent of the employees' annual salary can be used as leverage for the maximum amount of ICF that they can avail from the IIFC. For example:

Salary	US\$60 per month
Formula used	Salary per month x 35per cent x 12 months
Therefore	$60 \times 0.35 \times 12 = \text{US\$}252.00$ or Maximum ICF
Amount:	US\$252

ICF TERM Maximum 12 months

ADMIN CHARGE (MARK-UP) : 2 per cent per month

MODE OF PAYMENT Monthly Salary Deduction

Mark up and principal equally divided monthly

MINIMUM SHARE CAPITAL US\$20

COMPENSATING BALANCE 10 per cent pledge deposit on ICF application but minimum of SU\$20 (to be determined after computing the maximum ICF amount that the employee can avail from the IIFC).

MAXIMUM ICF CEILING Up to US\$500 for 1st release, maximum of US\$1,000 for succeeding releases.

ICF REQUIREMENTS Co-signer's pledge Certification from the Head Office regarding employment status and net take home pay (salary) per month. Authorization from the Head of Office and Pay Master for Salary Deduction

ICF PURPOSE Agriculture and Business Only

HYBRID SYNDICATED AGRICULTURE/BUSINESS ICF – This product is a hybrid designed to provide productive asset under lease (Ijarah) arrangements between the borrower and the Islamic Investment and Finance Cooperative (IIFC), and finance working capital through offering an Islamic financing arrangement (Murabahah). An Ijarah agreement must be combined with Murabahah (classical or modern) working capital borrowings for the period of Ijarah lease. The use of Hybrid loans in Afghanistan is for financing big value assets such as Tractors, Trucks or any other machinery or plant. The working capital required to run such high value assets, for example fuel for Tractor comes as part of the Hybrid product.

ELIGIBILITY TO BORROW

- Hybrid ICF products will be made available exclusively to the communities served by the IIFC.
- ICF officers will be responsible for identifying and proposing new borrowers and will have to comply in their recommendations with stated risk assessment requirements.
- Financing will be made available after assessment of the member application and suitability for a hybrid product. The ICF officer will produce a list of businesses and types of assets required to expand existing businesses, or add new income generating activity to existing successful business. No start-ups of new businesses will be financed.
- The applicant shall present proof/evidences that she/he is personally engaged in the business or agricultural activities approved as allowed for this type of product for at least 6 months.
- Applicants should attend the membership and lending orientation meetings.
- Applicants should comply with share saving requirements (i.e. compensating balance which is 10per cent of the ICF amount).

LOANABLE AMOUNT

- The value of the Ijarah component of the hybrid product is determined based on the value of the selected productive asset to be funded. Productive assets are selected in the following way:
 - Identification of productive assets needed to expand businesses in the community
 - Evaluation of business proposals by the IIFC and National Association
 - Identification of suppliers of assets.
- Murabahah financing will approved as part of the hybrid ICF Agreement
- Ratio of Murabahah to Ijarah value should be between 40-60 per cent
- Value (principal plus mark-up) of Murabahah component will be determined based on the leverage ratio of Murabahah to Ijarah.

SERVICE FEE AND ADMIN CHARGES

- A service fee of 1per cent of the amount but not less than US\$2 shall be deducted from the ICF proceeds.

- Ijarah price will be set to recover administrative costs associated with processing and monitoring.
- Value (principal plus mark-up) of Murabahah component will be determined based on the leverage ratio Murabahah to Ijarah
- Expected return on Ijarah and Murabahah will be set to reflect the IIFCs' pricing strategies

TERMS AND MODE OF PAYMENT

- Ijarah agreement will be for no less than 2 years
- The term of the Murabahah components will be determined based on the production/sales cycles of the business financed, but at least two Murabahah ICFs will have to be obtained and fully repaid during the life of the hybrid product agreement.
 - Mode of payment may be monthly or quarterly.
 - Mark up and principal is equally divided.

PRODUCT FINANCING

- The IIFC will provide capital for Murabahah and Ijarah hybrid products.

RISK MANAGEMENT

- **Risk ownership:** The IIFC will perform all the required procedures to ensure that credit risk assessment is performed and risk assessment policies and procedures are updated and being enforced. Where the other CG-ICF members fail to repay the defaulted amount and/or the CG-ICF remains delinquent for more than 60 days, all members of the defaulted CG-ICF will be ineligible for further credit.
- **External risks:** Primary risks are associated with the external driving forces and market.
- **Internal risks:** Primary risks are associated with dishonesty, fraud and 'insider dealings'. Secondary risks are of a regulatory nature and include possible weaknesses in enforcing and controlling compliance with standard risk assessment policies and procedures.
- **Risk management:** The National Association will work collaboratively with the IIFC in monitoring and controlling the risks. In this context the National Association will perform on-site and off-site monitoring in strict accordance with the risk assessment and risk management policies developed.

Where the volume of the capital reserve created by the IIFC is insufficient to sustainably continue hybrid products in each individual IIFC, the IIFC may work with the available donors to help in such circumstances, or get the help of the National Association in raising funds. Another option may be access to commercially available funds.

ICF SECURITY

- The IIFC will assume the non-repayment risk through collateralizing the Murabahah agreement with the asset provided by the Ijarah agreement. The IIFC will liquidate or re-lease the asset in order to get the Murabahah loan.
- Upon expiration of the hybrid ICF term (and provided that the borrower has met all his/her contractual obligations), the title to the asset financed by Ijarah will be transferred to the borrower.

ICF APPROVAL

- IIFC Credit Committee will make the final approval.
- If help from the local elders is received through the process of identification of borrowers for the hybrid products, they will be compensated under services retainer principle. Compensation mechanisms will be progressive in nature and the level of compensation will be based on both the volume of ICF's outstanding and on the quality of the ICF portfolio.

PRODUCT MARKETING

- The Hybrid product will be marketed as a single product irrespective of its nature of two combined products. No components will be offered and acquired independently from one another.
- Introduction of the hybrid syndicated ICF product in no way will prohibit or restrict the IIFC from offering its existing or newly developed products.

PRODUCT WORK-FLOW

Work flow of Ijarah:

- Identification of productive assets needed to expand businesses in the community.
- Evaluation of business proposals by the IIFC and the National Association.

- Identification of suppliers of the assets by the IIFC and National Association.
- Purchase of the assets for approved Ijarah agreements.
- IIFC retains the title of the asset financed under Ijarah until the Ijarah agreement is paid in full.
- IIFC transfers the ownership of the asset to the borrower.
- Asset is released to the borrower upon signing the release/acceptance agreement.

Work flow of Murabahah:

- Murabahah financing will be approved as part of the hybrid ICF.
- A classic or modern financing mechanism is selected based on the type of asset made available under Ijarah and as per assessment of the needs of the borrower.
- Murabahah financing or benefit is released to the borrower as soon as the agreement is signed or within a specified term time period, whatever the case might be.

The term of the Murabahah components will be determined based on the production/sales cycles of the business financed. At least two Murabahah ICFs however will have to be obtained and fully repaid during the life of the hybrid product agreement

APPENDIX 1

**SUMMARY TABLE OF ICF PRODUCTS
ISLAMIC INVESTMENT AND FINANCE COOPERATIVE**

Community Group ICF	Based on need and capacity, but not to exceed US\$500 for the first release	<ul style="list-style-type: none"> - Compensating balance of 10 per cent of the ICF amount - All group members are co-signor - Certificate of Land, Livestock or Farm Ownership 	6 months to 1 year	<ul style="list-style-type: none"> - Micro business, ambulant - Group of 5-10 farmers 	2 per cent/month	Mark-up and principal equally divided on a monthly basis
Salary ICF	<ul style="list-style-type: none"> - 35 per cent of annual salary - Up to US\$500 for 1st release - Maximum of US\$1,000 for succeeding releases 	<ul style="list-style-type: none"> - Compensating balance of 10 per cent of the ICF amount - Co-signor - Employment certification/endorsement of Company/Department Head 	Maximum of 1 year	<ul style="list-style-type: none"> - Personal - Agricultural - Business 	2 per cent/month	Mark-up and principal equally divided on a monthly basis
Share Saving Secured ICF	Up to 90 per cent of share saving amount	<ul style="list-style-type: none"> - Deed of Assignment of Deposit with Authority to Debit - Hold-out of passbook/certificate and in the Core-Banking System 	1 month up to 1 year	Large depositors	4 per cent spread on top of existing deposit rate (computed based on diminishing balance)	Monthly or Lump sum Payment

ICF Products	Amount	Requirement	Term	Target Group	Mark-up (per cent monthly)	Remarks/ Repayment Period
Agricultural ICF	Based on 5 Cs but not to exceed: - US\$500 for first release - US\$100 for the 2nd release & onwards For purpose other than working capital, the increased amount can be up to a maximum of US\$10,000	<ul style="list-style-type: none"> - Compensating balance of 10 per cent of the ICF amount - Co-signor - Certificate of Land, Livestock or Farm Ownership 	Based on production cycle with a maximum of 9 months For purposes other than working capital, the increased term can be up to 24 months maximum	<ul style="list-style-type: none"> - Livestock Farmers - Crop Farmers - Leasing for Farm Machineries 	2 per cent/month	Monthly or Lump sum Payment
Business ICF	Based on 5 Cs but not to exceed: <ul style="list-style-type: none"> - 1st release- US\$500 to 4,000 - 2nd release- US\$6,000 maximum - 3rd release & onwards- US\$10,000 maximum 	<ul style="list-style-type: none"> - Compensating balance of 10 per cent of the ICF amount for all ICFs <ul style="list-style-type: none"> - 1 co-signor for every US\$2,000 or fraction thereof - Business permit, lease contract <p>In addition to the above:</p> <ul style="list-style-type: none"> - Collateral - Rental payments, bank records, accounting records, Financial statements 	6 months to 2 year	<ul style="list-style-type: none"> - Trading - Services - Manufacturing 	2 per cent per month	Mark-up and principal equally divided on a monthly basis

APPENDIX 2

LOCAL ELDERS CERTIFICATE

To: Local Elders
[Address]
Date / /

Dear Sir,

We write to you from the Islamic Investment and Finance Cooperative (IIFC), located in [address of the IIFC].

Mr/Mrs/Miss [Name of member] Son/daughter of [Name of father] claims that he/she is the resident of [name of village] Village, [name of district] District/Suburb of [name of a province or state] province/State.

Therefore, we kindly request you to certify the above given information to assist the Islamic Investment and Finance Cooperative (IIFC) in making a decision about the Islamic Compliant Financing that the aforementioned person has applied for.

TO BE COMPLETED BY THE LOCAL ELDERS:

Duration of stay of the afore-mentioned person in the nominated address _____
Character
: _____
House/Private/Rental : _____

ICF officer signature

Name of LLA _____ Father Name

_____ and Phone number _____

Sign and stamp

Note; please Stamp on the picture in addition to the letter.

APPENDIX 3

ISLAMIC COMPLIANT FINANCING REGISTER
Processing Month/Year

No	Date of application	Borrower's Member Code (#)	Borrower's First Name	Borrower's Family Name	Gender (M/F)	District	ICF Purpose	Amount Requested	ICF Term	Mode of payment	BEND LINE	
									(in months)			
1												
2												
3												
4												
5												
BEND LINE	No.	Collateral Offered	Name of the co-signer	Co-signer's Member Code (#)	Decision Date	ICF Approved (Yes/No)	If Denied	If Approved				
							Reason for Denial	Amount Granted	Mark-up Rate	Date Granted		Due Date
	1											
	2											
	3											
	4											
5												

APPENDIX 4

APPLICANT'S CONSOLIDATED STATEMENT OF INCOME & EXPENDITURES

Particulars	Monthly	Annually
Source of Income		
Salaries & Wages		
Income from Business (Net)(from Profit & Loss Statement):		
Other Personal (Family) Income:		
Total Income		
<i>less:</i> Expenditure & Cash Outlays:		
Expenditures		
Food Expenses		
House Rentals		
Education: Tuition Fees Books ,School, Supplies & Equipment, etc		
Clothing		
Medical & Dental Expenses		
Personal hygiene expenses (Including Barber)		
Cooking gas Expenses		
Transportation Expenses		
Water Bills		
Electricity Bills		
Telephone Bills		
Laundry Expenses		
Other Expenses		
Total Expenditures		
Cash Outlays		
Payments of other (Debts/Amortization):		
Payment of Financial Advances (From other Banks/FI)		
Housing Amortization		
Vehicle Amortization		
Appliance Amortization		

Other amortization cost (Please Specify)		
Other Cash Outlays (Please Specify)		
Total Cash Outlay		
Total expenditures and cash outlays		
Disposable Income (Total Income-Total Expenditures & Cash Outlays)		
LESS: Contingency (20 per cent of Total Expenditures Cash Outlays)		
Net Disposable Income After Contingency		

Name of Applicant: _____

Date: _____

Name of ICF officer: _____

Date: _____

APPENDIX 5A

PROFIT AND LOSS STATEMENT OF THE BUSINESS (TRADING)

Regular Business	Yearly	Monthly
Gross sales		
Less: Cost of Goods		
Gross Margin from Sales		
Less: Operating Expenses		
Salaries/Wages		
Rental		
Electricity Bills		
Telephone		
Water Bills		
Taxes, Licenses, Permits		
Admin Charge Expense (on Financial Advances)		
Miscellaneous Expenses		
Other (Please Specify)		
Total Operating Expenses		
Net Income (Gross Margin less Operating Expenses)		

Sources of Investment

Particulars	Percentage to Total Investment	Amount US\$
Financial Advance From Cooperative		
Equity (Own Capital of the Applicant)		
Other Sources (Please Specify)		
Total Investment		

APPENDIX 5B

PROFIT AND LOSS STATEMENT OF THE BUSINESS (FARMING)

Regular Farming	Yearly	Production Cycle (_) months
Gross sales		
Less: Cost of Production Seeds Fertilizers Direct Labour Other Indirect Materials		
Gross margin from sales		
Less: Operating Expenses		
Marketing Cost -Truck rentals		
Labour of Sales Assistant		
Telephone Bills		
Admin Charge Expenses- Financial Advances		
Miscellaneous Expenses		
Others (Please Specify)		
Total Operating Expenses		
Net Income (Gross Margin less Operating Expenses)		

Sources of Investment

Particulars	Percentage to Total Investment	Amount US\$
Financial Advance From Cooperative		
Equity (Own Capital of the Applicant)		
Other Sources (Please Specify)		
Total Investment		

APPENDIX 5C

PROFIT AND LOSS STATEMENT OF THE BUSINESS (LIVESTOCK)

Regular Livestock	Yearly	Production Cycle (_) months
Gross sales		
Less: Cost of Production Livestock Feeds Transport cost Other Indirect Materials		
Gross Margin from Sale		
Less: Operating Expenses		
Marketing Cost – Truck rental costs		
Labour of Sales Assistant		
Livestock Shelter		
Admin Charge Expense- Financial Advances		
Miscellaneous Expenses		
Other (Please Specify)		
Total Operating Expenses		
Net Income (Gross Margin less Operating Expenses)		

Sources of Investment

Particulars	Percentage to Total Investment	Amount US\$
Financial Advance From Cooperative		
Equity (Own Capital of the Applicant)		
Other Sources (Please Specify)		
Total Investment		

APPENDIX 6

**INTERVIEW WITH BUSINESS AND RESIDENTIAL NEIGHBORS
(REFERENCES)**

ICF Applicant's Name: _____

Applicant's Address: _____

ICF Officer's Name: _____

Date of interview Business Neighbour <input type="checkbox"/> Residential Neighbour <input type="checkbox"/> Name, Occupation and Address	
How long have you know the applicant?	
Is the applicant well regarded by others? Explain	
Is the applicant a good borrower? Explain	
Would you guarantee the applicants' payment? Explain	
Date of interview Business Neighbour <input type="checkbox"/> Residential Neighbour <input type="checkbox"/> Name, Occupation and Address	
How long have you know the applicant?	
Is the applicant well regarded by others? Explain	
Is the applicant a good borrower? Explain	
Would you guarantee the applicants' payment? Explain	
Date of interview	

Business Neighbour <input type="checkbox"/> Residential Neighbour <input type="checkbox"/> Name, Occupation and Address	
How long have you known the applicant?	
Is the applicant well regarded by others? Explain	
Is the applicant a good borrower? Explain	
Would you guarantee the applicants' payment? Explain	

APPENDIX 7

**CO-SIGNER INFORMATION SHEET (APPLICATION)
(UNDERTAKING TO BE HAND-WRITTEN & SIGNED WITH FINGER PRINT)**

IMPORTANT: PLEASE READ THESE DIRECTIONS BEFORE COMPLETING THE APPLICATION:

- 1) The co-signer must submit the proof of income and disclose all current debts and obligations enclosed to this application.
- 2) The co-signer must provide all information requested. If he/she needs more space to answer the questions, this information can be provided on supplemental sheets of paper. The IIFC is relying on the information provided. Incomplete answers or misinterpretation of information can jeopardize the ability of the individual to become the co-signer.
- 3) All co-signers must complete the application to the best of their knowledge.
- 4) The co-signer shall not be a relative or individual who is dependent on the primary borrower for their livelihood. An individual may not co-sign for more than one outstanding ICF, unless they have shares or savings available to secure the ICF.
- 5) The IIFC's employees and elected officials are not allowed to become the co-signer of any member.
- 6) Member-borrowers who become delinquent for three (3) consecutive instalments are disqualified as co-signers. He/she can resume being a co-signer if repayment of ICF is continued and the delinquent payment is fully covered.
- 7) All co-signers will be obliged to make payments on the ICF should the primary borrower fail to make the payments. Any contract between the primary borrower and the co-signer is strictly between them, and the IIFC will have no part in the contract.

Applicant's (primary borrower) Name for whom you are co-signing for: _____

Amount of ICF you are co-signing for (US\$): _____

Your Relations with Primary Borrower: Business partner Friend Relative (specify)

Are you currently co-signer on any other ICF in IIFC or other financial institutions: Yes No

If yes, please provide details of your guarantee: Amount _____, Maturity _____

Do you currently have an ICF from the IIFC or other financial institutions? Yes No

If, yes, please provide details of your ICF(s): Amount _____, Maturity _____

Do you currently have shares and savings in the IIFC? Yes No

If, yes, please provide details of your savings in the IIFC: Amount _____, Maturity _____

Co-signer's full Name: _____ Birthday _____

Co-signer's membership number (if applicable): _____ ID number: _____

Home phone number: _____, Business phone number _____

Present address: _____ Years at present address: _____

Family status: Married Single Widow No. of Dependents _____

Name and address of employer (Type of Business and address): _____

Date of Employment (Start of Business): _____, Current Position held: _____

Monthly Income: 1) Employment (Business) _____, 2) Other (specify) _____

Monthly Expenses: 1) Business _____, 2) Personal _____

List of Assets Owned:	Name and location	Approximate Value
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Check the box that best answers the question. If you answer "Yes" to any of the questions, please, provide detail on a separate sheet of paper (or the reverse side of this form).

Is your income likely to decline in the next two years? Yes No

Reason: _____

Have you had your property foreclosed? Yes No

Reason: _____

Are you a defendant in any suits or legal actions? Yes No

Reason: _____

Important. Please read. The information contained in this application is provided for the purpose of supporting an application to become a co-signer on the ICF of the primary borrower on behalf of the undersigned. The undersigned understands that the IIFC is relying on the information provided herein in making the ICF decision. The undersigned represents and warrants that the information provided is true and correct to the best of their knowledge, and that the IIFC may consider these statements to be true and correct until written notice of a change is received from the undersigned. The IIFC is authorized to make all the enquires it deems necessary to verify the accuracy of the statements made herein, and to determine the financial status of the undersigned.

Co-signer's Signature: _____

Co-signer's Full Name: _____

Date: _____

-

<p>IIFC Use Only:</p> <p>Approved: YES NO</p> <p>Reason: _____ _____</p> <p>Responsible Officer's Name and Signature: _____</p>

APPENDIX 8

**AGREEMENT WITH THE CO- SIGNER
(ADDENDUM TO THE FINANCIAL ADVANCE PROMISSORY NOTE)**

Promissory Note# and

Date_____

Amount of Financial Advance Guaranteed: _____

Important. Please read before signing the agreement.

It is requested from you as a guarantor of this financial advance to think carefully before signing this agreement. It is your primary responsibility to ascertain the credit standing of the applicant before signing this agreement.

You will become equally liable for the financial advance of the applicant in cases where he/she fails to make payment. You must be sure that you are able and ready to take the responsibility to pay the financial advance amount in cases where the applicant fails to make payment, including administrative charges.

When the applicant’s payment becomes delayed, you shall assist the IIFC in the collection of the delinquent repayment.

Following completion of collection efforts against the applicant without success (and no later than i2 months after the applicant becomes delinquent), you shall pay the outstanding financial advance balance and administrative charges that you guaranteed applicable at that time.

IDENTIFICATION

My Name is:_____

My presents address is:_____

My ID Number is_____ My phone number is:_____

I have completed the co-signer’s information sheet for the express purpose of being co-signer on the financial advance agreement. I have no intention to use the financial advance funds received by the applicant. However, I have read the agreement and agree to guarantee the applicant’s compliance with the financial advance terms and conditions.

I have ascertained the credit standing of the applicant before signing this agreement.

I understand that I become equally liable for the financial advance of the applicant and may be required to make the payment on financial advance in cases where the applicant fails to make timely payments inclusive of administrative charges.

I am ready to assist the IIFC in collection of delinquent payments if the applicant becomes delinquent.

I am able and ready to fulfill the conditions of this agreement and understand that it will remain in force until such time as the financial advance is fully repaid.

Name and Signature of Applicant_____Name and Signature of Co-signer_____

For IIFC Use Only:
Completed and verified: YES NO

APPENDIX 9

COLLATERAL APPRAISAL APPRAISAL AND VALUATION OF REAL PROPERTY

(Basic Information to be gathered through Field Investigation)

The property is offered as collateral under the ICF application #_____ of the Borrower_____

Member-borrower's name and Code, dated _____

General Information

1. Name of Registered Owner:	
2. Address/Tel. No.:	3. Location of the Property:
4. Property Document Number:	5. Land Area: Square meters
6. Acquisition Cost: US\$	7. Current Market Value: US\$
8. Classification of Property: (Commercial, Residential, Industrial, Agricultural, etc.)	9. Access to Public Utilities: (Electricity, Water, etc.)
10. Results of Verification from Registry of Deeds/Assessors' Office:	

Appraised Value:

Types of Property	Ownership Number	Area (Sq. m.)	Adverse Influences	Appraised Value per m ²	Total Appraised Value*
Land					
Building/Improvements					
Other (describe):					
TOTAL					

* Based on Market Value

Attach map of the land, if unplanned then draw Sketch Map of the Land/Improvements (basic characteristics and condition of the other property):

Consider any landmark, adjacent lots, main roads, easements or road right of way, rivers/creeks, slope, mountains, eroded area, etc. (use the back site of the form, if needed)

Conditions of the property storage/maintenance (consider any security or Exploitation/maintenance risks):

<input type="checkbox"/> Very Good	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor
Reason/s:			

Marketability

<input type="checkbox"/> Very Good	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor
Reason/s:			

Valuation of Real Estate Property

Land: 80 per cent of the Assessed Value (Fair Market Value) (Less 10 per cent Contingency) (X 50 per cent = ICF Value)	
House/Building: 80 per cent of the Total Cost of the Building (Fair Market Value) less Accumulated Depreciation (Less 10 per cent contingency) (X 50 per cent = ICF Value)	
Jewellery: 80 per cent of Assessed Value (Fair Market Value)	
Others (describe): Not more than 60 per cent of Fair Market Value	
Total Cost of Pledged Property:	

Agreed with (Property Owner): Appraised by: Verified by: Approved by:

_____ CEO_____

Date_____

APPENDIX 10

ICF INVESTIGATION REPORT/CREDIT RATING REPORT

Date of Application _____ Date of Investigation _____
 Name of Applicant _____ Applicant's member
 code _____ Purpose _____ of Financial Advance: _____:
 Amount requested _____
 Address _____

AREAS TO INVESTIGATE	REFERENCE TO SOURCE DOCUMENTS (INFORMATION)	FINDINGS	MAX. SCORE	RATING
1.0 25 per cent=CHARACTER			25	
1.1. ICF record in the IIFC "Good" is 5, "Bad" is 0, "No record" - 2	(Core-Banking System)		5	
1.2. Financial Advance record in other financial institutions "Good" is 5, "Bad" is 0, "No record" - 2	(promissory notes)		5	
1.3. Is the applicant a permanent member of the community? (Housing stability) Less than 2 years is "1" "3-5 years - is "2" Over 5 years - is "3"	(Local Legitimate Authority certificate)		3	
1.4. Goodwill/Reputation of the Applicant (loyalty awards from Employment/business/community or civic organization) "Excellent" is "3", "Good" is 2,	(Local Legitimate Authority certificate, References check)		3	

"Satisfactory" is 1, "Bad" - 0				
Relationship with the family (parents, spouse, children, house helpers), in the workplace (employees, partners, helpers) and in the community (neighbours, LLA) 1.5. Family "good" - 1, "bad" - 0 1.6. Workplace - "good" - 1, "bad" - 0 1.7. Community - "good" - 1, "bad" - 0	(References check)		1 1 1	
1.8. Relationship with IIFC staff/officers "GOOD"- is 2, "BAD" - is 0.	(Documented opinion of IIFC staff)		2	
1.9. Life style and standards (value of thriftiness & savings, spending habits, living beyond means, bad habits/actions: involvement in drugs, gambling, alcoholism and other illegal activities). "GOOD"- is 3, "BAD" - is 0.	(Reference check, Local Legitimate Authority certificate, and others)		3	
1.10. Participation in IIFC activities (attendance in meetings, promotion) • "YES"- is 1, "NO" - is 0.	(IIFC minutes, registration)		1	
2.0 45 per cent=PAYMENT CAPACITY			45	
2.1. Length of stay at present job and/or business Less than 5 years- 3 More than 5 years- 5	(Employment check)		5	
2.2. Proof of income available (Salary slips/Checks/others)	(Salary slips, checks)			

"Yes" is 4, "No" is 0			4	
2.3. Records of Expenses available (Proof of Expenditures) "Yes" is 4, "No" is 0	(checks, payment slips)		4	
2.4. Has the net income of the applicant grown over previous years? "Yes" is 4, "No" is 0	(Proof of income for previous years)		4	
2.5. Does the Adjusted Debt Capacity meet the future ICF amortization (monthly)? ADJUSTED MONTHLY DEBT CAPACITY = Consolidated Disposable Net Income Monthly multiply by 35 per cent (Adjusted Repayment Capacity Rate) Disposable Net Income = {Total income - Total Expenditures & Cash Outlays - Contingencies (20 per cent of Total Expenditures & Cash Outlays)} "Yes" is 10, "No" is 0	(Statement of Income and Expense)		10	
2.6. Is the Return on Investment of the business adequate to meet the payment requirements? ROI = Net Income/Total cost of Investment (Note: Refer to Business Profit and Loss Statement) "Yes" is 10, "No" is 0	(Business profit and loss statement)		10	
2.7. Does the Payback Period of Investments match the proposed ICF term (duration)? "Yes" is 5,	(Business Profit and Loss Statement)		5	

"No" is 0				
2.8. Are there any other payment capacity limitations (incl. applicants' age, health conditions, etc.)? "No" is 3, "Yes" is 0	NID Card		3	
3.0 15 per cent=CAPITAL			15	
3.1. Is the growth in savings positive (banks, coop & others)? "Yes" is 4, "No" is 0	(Core-Banking System, passbooks of other financial institutions)		4	
3.2. Is quality of assets adequate? (Inventory, property- current, fixed & movable) "Yes" is 2, "No" is 0	(Collateral/property appraisal form)		2	
3.3. Is the asset base growing? "Yes" is 1, "No" is 0	(ICF application, appraisal forms, pictures of real property)		1	
3.4. Verified inventory of all liabilities & debts available (Financial Advances & payments outstanding)? "Yes" is 2, "No" is 0	(Promissory notes, checks, agreements)		2	
3.5. Degree of indebtedness is favourable and positive? "Yes" is 1, "No" is 0	(ICF application, Profit and loss statement)		1	
3.6. Is the net worth of the borrower (his/her total assets less total liabilities) favourable and positive? "Yes" is 5, "No" is 0	(ICF application, Profit and loss statement)		5	
.4 10 per cent=COLLATERAL/CO-			10	

MAKERS				
<p>The collateral can be easily converted into cash at the appraised value, i.e.:</p> <p>4.1. That the value of the collateral is conservative "Yes" is 1, "No" is 0</p> <p>4.2. There is a market for the collateral should it have to be sold to repay the ICF. "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.3. Does the requested ICF term correspond with the useful life of the collateral? "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.4. Is the value of the collateral more than the requested ICF amount, and does it meet the IIFC's policy on valuation? "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.5. Collateral value can be determined by a reputable source? "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.6. Collateral can be easily repossessed to pay off the ICF? "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.7. Are the collateral ownership rights clearly registered? "Yes" is 1, "No" is 0</p>	(Collateral appraisal form)		1	
<p>4.8. The IIFC will have clear title to the collateral, free from lien and encumbrances? "Yes" is 1,</p>	(Collateral appraisal form)		1	

"No" is 0				
4.9. The borrower or co-signer's spouse has a will and consents to provide the asset as the collateral for the ICF? "Yes" is 1, "No" is 0	(Collateral appraisal form)		1	
4.10. Does co-signer meet the requirements of the IIFC's policy? "Yes" is 1, "No" is 0	(Co-signer application form)		1	
5.0 per cent5=FINANCIAL ADVANCE CONDITIONS			5	
5.1. Is the ICF within the limits established in the IIFC's policy? "Yes" is 1, "No" is 0	Check with policy requirements		1	
5.2. Does the borrower have a stable market for sales of their products? "Yes" is 1, "No" is 0	Market and business observations		1	
5.3. Is the borrower's business environment comparatively favourable? (Competition, availability of raw materials, security, etc.) "Yes" is 1, "No" is 0	Market and business observations		1	
5.4. Does the business match all legal requirements (licenses, certificates, taxes, etc)? "Yes" is 1, "No" is 0	(Business permits, NIC, Certificate of Land or Livestock or Farm Ownership)		1	
5.5. Is there any Sanitation, Weather & Environmental impact on the borrower's	Market and business observations		1	

business? "No" is 1, • "Yes" is 0				
			100	

APPENDIX 11

DEED OF ASSIGNMENT WITH AUTHORITY TO DEBIT

This Deed of Assignment made and executed by _____ of legal age and residence of _____, hereinafter referred to as the ASSIGNOR and BORROWER.

- in favor of –

“_____” Islamic Investment and Finance Cooperative (IIFC), a cooperative duly organized and existing under and by virtue of the laws of [country name], hereinafter referred to as the ASSIGNEE.

WITNESSETH:

For and in consideration of, and as security, for certain Islamic Compliant Financing (hereinafter referred to as the ICF) in the principal amount of _____ USD, now or hereinafter granted to ASSIGNOR and BORROWER, by the ASSIGNEE, including any extension, renewal or modification thereof, and/or increases/additions thereto, the ASSIGNOR does hereby cede, transfer and assign unto the ASSIGNEE, its successors, or assigns, all ASSIGNOR’S right, title to and interest in the sum of _____ USD, together with any administrative charges thereon, out of the ASSIGNOR’S share saving under Account No. _____.

It shall be understood and agreed that the said saving account, together with any dividend due thereon from and after this date, including any renewal thereof, will not be pre-terminated/withdrawn, transferred or encumbered without the written consent of the ASSIGNEE unless the ICF (or any part thereof - , including any changes thereon), shall have been fully paid or discharged.

The amount of share saving submitted as security under this Deed of Assignment shall be maintained at a level equivalent to _____ percent of the ICF outstanding (“ICF Value”). Any impairment or decrease in the ICF Value of the security shall oblige the BORROWER to do either of the following in order to maintain the ICF Value: (1) submit additional security of the same or different nature as that already existing, subject to acceptance thereof by the ASSIGNEE, or (2) pay the ICF in whole or in part. In either case, the new schedule of security as re-valued and/or as supplemented shall be duly certified by the ASSIGNOR’S Finance Officer or duly authorized

officer or the authorized signatory of the entity, which has custody of the security. Failure by the BORROWER to maintain the ICF Value as provided herein is considered as an event of default.

Where the share saving is for a definite term, and such term is shorter than the term of the ICF, the ASSIGNOR hereby agrees to renew/extend the share saving for a term at least co-terminus with the term of the ICF.

The ASSIGNOR further agrees to promptly and duly execute and/or deliver to the ASSIGNEE such other documents, and undertake any and all further actions as necessary to give full force and effect to this assignment.

Effective upon default in the payment of ICF or any part thereof, including BORROWER'S failure to maintain the ICF Value as herein provided the ASSIGNOR, hereby grants the ASSIGNEE full power and authority to collect/withdraw the share saving/securities and apply the collection/share saving to the payment of the outstanding principal and/or mark-up and other collection charges on the ICF. For this purpose, the ASSIGNOR hereby names, constitutes and appoints the ASSIGNEE with powers of substitution to ask, demand, collect, sue for, recover and receive the share saving/securities or any part thereof, as well as to encash, negotiate and endorse checks, drafts and other commercial papers/instruments received by and paid to the ASSIGNEE - incident thereto and to execute all instruments and agreements connected therewith. A written Certification by the ASSIGNEE of the amount of its claims from the ASSIGNOR and BORROWER shall be conclusive on the ASSIGNOR and BORROWER (absent manifest error).

This assignment constituting a lien over the assigned accounts, certificates and/or documents, covers all or any indebtedness now or hereinafter owing by the ASSIGNOR and BORROWER to the ASSIGNEE and shall be irrevocable and shall not be modified, amended or cancelled by the ASSIGNOR, without the prior written consent of the ASSIGNEE.

IN WITNESS WHEREOF, the ASSIGNOR has signed this deed at _____ this _____ day of _____, 20____.

ASSIGNOR/BORROWER
WITH THE CONFORMITY OF:
Islamic Investment and Finance Cooperative
By:

CEO

Signed in the presence of:

WITNESS

APPENDIX 12

ICF WORK-UP SHEET

1	Applicant's full Name: _____
	Birthday: _____ Member Code: _____
	Number of dependents: _____ In School: _____
	Family status: Married _____ Single _____ Widowed _____
	Purpose of ICF: _____ Amount of ICF _____
	Term of ICF (months) _____ Monthly Payment _____

2	RESIDENCE	EMPLOYMENT/BUSINESS
	Address:	Employer:
	Owned or Rented:	Addresses:
	Length of Stay:	Length of Employment:
	Home Phone No:	Business Phone No:

Calculation of Member Margin:			
3	INDICATORS	VALUE	COMMENTS (ADEQUATE OR NOT)
	Net Disposable Income (= {Total income - Total Expenditures & Cash Outlays - Contingencies (20 per cent of Total Expenditures & Cash Outlays)})	USD.	
	ADJUSTED MONTHLY DEBT CAPACITY = Consolidated Disposable Net Income Monthly multiply by 35 per cent (ARC Rate)	USD.	
	ADJUSTED MONTHLY DEBT CAPACITY/Monthly ICF amortization	per cent	Should be at least 100 per cent
	ROI = Net Income/Total cost of Investment	per cent	
	Payback period in months= Total cost of Investment/Monthly Net Income	Months	Should be equal or less to ICF term

4	APPLICATION	REFERENCE
	Completely filled out:	Financial
	Signed and date, information verified	Personal

5	CO-SIGNOR'S INFO	CON-SIGNOR'S REFERENCE
	Is a co-signor required?	Financial
	Co-signor's application filled?	Personal
	Co-signor's margin adequate?	

Approval basis		
5Cs EVALUATION	RATING	CONCLUSION
Character		
Payment capacity		
Capital		
Collateral		
Financial advance conditions		
Total Score		

Recommendation:

Loan Approved/Denied/Deferred Details:

Counter Offer Made Details:

Name and Signature of ICF Officer

Name and Signature of CEO

APPENDIX 13

ICF PROMISSORY NOTE

Islamic Investment and Finance Cooperative (IIFC)	
Name:	Address:
Phone #:	Bank Account and Registration Details:
Borrower's Information:	
Full Name:	Date and Place of Birth:
Residential Address (Current and Permanent)*:	Work Place and Address*:
Home Phone #:	Business Phone #:
ID number:	IIFC Membership number:
<i>Note: The Borrower must promptly (within 10 days) inform the IIFC of any change in name, address, workplace, and contacts.</i>	
Financial Advance Information:	
Financial Advance Amount (US\$):	Date Requested:
Date Granted:	Maturity Date:

1. **Promise to Pay.** For value received, _____ (Borrower), jointly with all undersigned co-signers and guarantors, promises to pay _____ (IIFC) the sum of _____ US\$ (_____), and administrative charge at the yearly rate of _____ per cent on the unpaid balance within/on or before _____ months from date hereof until fully paid. Attached herewith is the amortization schedule, which forms part of this note.

2. Installments.

Borrower will pay _____ (number) payments of _____ US\$ (_____) each at weekly/by-weekly/monthly/quarterly/yearly/_____ intervals on the _____ day(s) of the month.

Borrower will pay one lump payment of _____ US\$ (_____) on _____ date.

Borrower will pay _____ (number) payments of _____ US\$ (_____) each at weekly/by-weekly/monthly/quarterly/yearly/_____ intervals with a final balloon payment of _____ at the end of the ICF term on _____ date.

3. Application of Payments. Payments will be applied first to administrative charges and then to principal.

4. Prepayment. Borrower may prepay all or any part of the principal without fine or penalty.

5. ICF Acceleration. If borrower is more than _____ days late in making any payment in full (as agreed), IIFC may declare that the entire balance of unpaid principal is due and payable immediately, together with the administrative charges that have been calculated. The IIFC is authorized to offset or apply any shares and savings in the IIFC in the borrower's or co-signer's name and/or account to the payment of the financial advance without need for prior notice or approval from the member borrower and or co-signer.

6. Security

This note is secured by the undersigned co-signers and guarantors.

Borrower agrees that until the principal and administrative charges owed under this promissory note are paid in full, this note will be secured by the

_____ (describe property pledged as security).

7. Collection Costs. In case this note is referred to an attorney for collection or legal action, Borrower will pay attorney's fees equivalent to _____ of our outstanding obligation to any holder hereof, exclusive of costs and expenses of litigation; but in no case, less than _____ (US\$ _____). Any action on this instrument shall be brought before proper court in _____ city, [country name].

The undersigned and all other parties to this note, whether as endorsers, guarantors or sureties, agree to remain fully bound until this note has been fully paid and waive demand, presentment, protest and all notices hereto; and further agree to remain bound notwithstanding any extension, modification, waiver, or other indulgence or discharge or release of any obligor hereunder or exchange, substitution, or release of any collateral granted as security for this note. No modification or indulgence by any holder hereof shall be binding unless in writing; and any indulgence on any one occasion shall not be an indulgence for any other or future occasion. Any modification or change in terms, hereunder granted by any holder hereof, shall be valid and binding upon each of the undersigned, notwithstanding the acknowledgement of any of the undersigned, and each of the undersigned does hereby irrevocably grant to each of the others a power of attorney to enter into any such modification on their behalf. The rights of any holder hereof shall be cumulative and not necessarily successive. This note shall take effect as a sealed instrument and shall be construed, governed and enforced in accordance with the laws of the [country name].

In joint-several capacity:

With Marital consent:

Name & Signature of Borrower (Date)
(Date)

Name & Signature of Spouse

Name & Signature of Co-Signer (Date)
(Date)

Name & Signature of Co-Signer

Signed in the presence of:

Name & Signature of Witness (Date)

Name & Signature of Witness (Date)

APPENDIX 14

RESOLUTIONS OF APPROVING COMMITTEES

ICF OFFICER	
Recommendation: <input type="checkbox"/> Recommended <input type="checkbox"/> Disapproved <input type="checkbox"/> Deferred Amount Recommended: _____ Term : _____ Share Investment for Membership: _____ Share Saving : _____ Repayment Record: _____ Advance _____ On time _____ Delinquent by Instalment _____ Delinquent by Maturity _____ _____	CID :No _____
ICF Officer /Date	
CEO	
Endorsement: <input type="checkbox"/> Endorsed <input type="checkbox"/> Disapproved <input type="checkbox"/> Deferred CEO's Comments: _____ _____	
CEO/Date	
ICF COMMITTEE	
ACTION TAKEN: <input type="checkbox"/> Approved <input type="checkbox"/> Disapproved <input type="checkbox"/> Deferred Amount Approved: US\$ _____ Retention/Share Saving : _____ Retention/Share Investment for Membership: _____ Admin charges Rate: _____ Other Conditions/Remarks: _____ _____ _____	
ICF COM Chair _____	
ICF Committee Secretary Member	ICF Committee

Chapter Four

Islamic Compliant Financing Collection Policies and Procedures

POLICY INTRODUCTION

This policy includes the guidelines and procedures on collection of funds issued to the members of the Islamic Investment and Finance Cooperative (IIFC) based on the Islamic Compliant Financing (ICF).

This policy sets the authorities, standards and norms on the collection of the ICFs in compliance with the letter and intent of all applicable laws and regulations of the [country name] and the IIFC's by-laws and internal policies.

The purpose of the policy is to address the problem of delinquent ICFs by determining the cause of delinquency and resolving the matter. Through a correctly established collection process the IIFC should continually seek to reduce its exposure to loss resulting from adverse circumstances, poor ICF quality, and member disputes.

POLICY FORMULATION, IMPLEMENTATION AND REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of the IIFC's delinquency exposure, members' needs, local market competition, daily operations and applicable legislative requirements.

The CEO of the IIFC is responsible for coordinating the collection efforts of the IIFC in accordance with this policy. The CEO may choose to delegate the day-to-day collection activities to a designated employee or with more difficult delinquent borrowers to the court.

The IIFC's Supervisory Committee will be responsible for ensuring that this policy is adequately carried out and that it achieves the goals for which it was created. The committee will regularly (preferably monthly and no less than quarterly) determine if the policy is being complied with and review a sample of delinquent ICFs including those already collected and those not yet collected.

DELINQUENCY DEFINITION

A delinquent ICF is defined as any ICF in which a payment required under the ICF contract has not been received in full. Depending on the payment schedule the payment could be all of the principal and mark-up due or a monthly principal and mark-up payment(s).

REPORTING DELINQUENCY

Delinquency is automatically calculated on the daily basis by the Core-Banking System. Delinquency report should be prepared every 15th & 30th of each month to allow for efficient monitoring and timely correction actions by the IIFC's CEO and the Credit Committee. The timely calculation of delinquency along with the recognition of possible losses and creation of allowances will ensure the accuracy of the IIFC's accounting records and financial statements.

Delinquency report as of the end of the month shall be presented to the IIFC's BOD at the monthly board meeting along with the financial and income statements. The BOD shall supervise the overall collections of ICFs and authorize the writing off of uncollectible financial advances, i.e. their removal from the books.

When disclosing delinquency, the entire outstanding ICF balance has to be reported as delinquent, not just the amount of the delinquent payments.

The delinquency categories reported are:

- Delinquent ICFs between 1- 30 days
- Delinquent ICFs between 31-60 days
- Delinquent ICFs between 61-90 days
- Delinquent ICFs between 91-180 days
- Delinquent ICFs between 181- 360 days
- Delinquent ICFs over 360 days

The delinquency report should include the following information:

- The members account number,
- The members name,
- The ICF type (purpose)
- The date the ICF was made (issuance date),
- The original amount of the ICF (original balance),
- The current ICF amount (outstanding balance),
- The current delinquency status in days,
- When the last ICF payment was received and if it was a full payment,
- The ICF collateral or co-signer
- Any actions taken by the IIFC to collect the ICF, and
- Any comments about the borrower's ability to repay the ICF.

In addition on a monthly basis the CEO shall review and present to the IIFC's BOD list of restructured ICFs indicating the reason and term of the restructuring.

The six reporting tables included in Appendix 5 stipulate detailed information required that include Delinquency Analysis, Write off and Recovery information, Delinquency causes, ICF portfolio distribution, Delinquency Targets by aging category and ICF rescheduling.

DELINQUENCY CALCULATION

A payment is not considered delinquent until after its due date. The ICF is considered delinquent starting from the next day after the payment was due in accordance with the agreed repayment schedule. The delinquency for an ICF should be calculated based on the ICF agreement.

Therefore, on the ICF repayable monthly, the actual number of full months of delinquency is one less than the number of delinquent payments. Is this correct? Is it necessary? If one payment is to be made at ICF maturity, which includes principal and mark-up then the ICF will not be delinquent until 31 days have passed from ICF maturity. If ICF mark-up payments are due throughout the life of the ICF, delinquency will be calculated on the payment or non-payment of these mark-up payments. If a payment is made which is less than the due amount, then that is considered one delinquent payment.

PHILOSOPHY REGARDING DELINQUENT ICFs

It is important that the members realize that every necessary action will be taken by the IIFC to recover a delinquent ICF. These actions include:

- Contacting delinquent borrowers and their co-signers consistently about the ICF(s),
- Following up immediately when a promised payment is not received from the borrower,
- Repossessing collateral in a timely fashion before it loses its value, and
- Using the courts to collect from delinquent borrowers who do not respond to collections performed by the IIFC employees.

Delinquent ICFs, in which the member has left the immediate membership area of the IIFC, shall be watched carefully, so not to lose contact with the member or the collateral.

COLLECTION CONTACTS

- If an ICF payment has not been received after 1 day of the stated payment, a telephone call will be made to the borrower. Telephone calls will be made until the member is reached.
- If the member is not reached over the phone within 3 days of the stated payment a personal visit should be made.
- If the borrower cannot be reached personally within 5 days of the stated payment a written reminder (see appendix 1) will be sent to the borrower and copied to any co-signer;
- This notice shall inform the borrower of his/her delinquency and of any collection measures that IIFC will take in case of non-payment and shall request the payment to be made to the IIFC no later than 5 days from the date of the notice. This first contact should be friendly, in hopes that the borrower has just forgotten to make the payment and is financially capable to make the full payment.
- At the same time, when the payment is 5 days late the borrower's and co-signer's share and saving accounts will be blocked for the delinquent amount due. In other words, they will be unable to draw their savings balance below the delinquent payment amount.
- If no payments have been made within 10 days a second notice (see appendix 2) should be sent and copied to any co-signer and phone contact and/or personal visit should be made to the borrower. This reminder requests payment upon receipt but not more than 5 days from the date of the notice and/or contact. This reminder should be more severe in its content than the first one and will notify the borrower that failure to pay will possibly lead to problems with obtaining ICFs in the future.
- If no payments have been received within 20 days a third notice (see appendix 3) is sent, phone contact or a personal visit is made to the borrower and co-signer. This notice requests payment in 5 days from the date of the notice. This notice will indicate the severity of the borrower's delinquency and the likelihood that action will be taken to collect the ICF to using judicial process, repossession of collateral or applying the borrower and any co-signer's share and savings amount to pay the delinquent ICF.

- If no payments have been received within 30 days, and if the borrower and/or co-signer's savings are available to make the payment, the amount required to pay the outstanding ICF will be withdrawn from the savings account.
- If these initial measures do not obtain the desired results the IIFC may proceed collecting the debt using judicial process after 2 months of delinquency.

It's not clear at this point whether these procedures apply where it is only periodical payments that are delinquent. It would seem appropriate at some stage when a number of periodical payments have been missed to call in the whole debt early.

- Any time when IIFC becomes aware that the borrower's initial payment source (automatic payment or payroll deduction) has been terminated, the IIFC should contact the borrower immediately. The IIFC should obtain information on how the borrower will further make the payment and should verify the borrower's address, phone number, place of employment, and personal references to ensure that all the current information is valid in case the ICF becomes delinquent.

* Phone contacts will be made continuously during this time frame and a record of these calls will be made on the individual's collection cards. All letters sent to the member will be copied and placed in the borrower's ICF file.

TELEPHONE/PERSONAL VISIT CONTACTS

Phone calls and/or personal contacts are much preferred and normally more effective than collection notices. It is very easy for the delinquent borrower to throw the notice away. With a personal contact the collection officer can discuss with the borrower the importance of making the monthly payments on time. It can be determined if there is some reason (maybe job loss) that has caused the borrower to become delinquent. Important information can be obtained such as: when the promised payment will be received, who will make the payment, how much will the payment be for, and how will they make the payment (salary, savings, a loan from a friend, etc.). With a personal contact the collection officer can also assess the condition and approximate value of the collateral, if it is a collateralized ICF.

When a telephone contact or personal visit has been made, the collection officer shall determine the reason why the borrower failed to make his/her payment, what the financial circumstances of the borrower are and where and when the borrower can most be readily contacted by telephone. He or she shall also make a request for immediate payment of all arrears on the ICF, and attempt to obtain a commitment from the borrower to pay with the specific date. The collection officer should then follow up the commitment on. Follow-up will first include a phone call to the borrower to find out why the borrower broke his/her commitment. At this point, the co-signer should also be contacted with the requirement to make the payment. All correspondence shall be documented in the collection records.

If events have resulted in an inability for the debtor to immediately repay the delinquent ICF payment, the responsible IIFC officer should determine when such payment would be possible.

The collection officer should be concerned about which method best protects the IIFC and also the long-term interest of the borrower. In collections, the collection officer must balance the need to treat the IIFC's members with every courtesy while protecting the assets of the membership. A telephone call and/or personal visit to a member for collection purposes must consist of a call/visit to the residence or place of business as described below:

- Messages: In the absence of the borrower the collection officer may leave his/her name and the telephone number for the member to call back. The collection officer should not divulge the purpose of the call/visit to any third party that is not a close relative or co-signer for this borrower.
- Collection Card Notation: Each time a call/visit is made, regardless of the results, a notation must be made stating the date of the call/visit, the place called/visited, if a message was left, the conversation with the debtor, any promises agreed to, and the date and amount of payment promised.
- Place of Employment: The collection officer should not call/visit the place of employment if the borrower tells the IIFC not to contact him/her at his/her place of employment until 20 days have passed after the first notice.
- Third Party Contacts: The collection officer may contact third parties to obtain information about the location or whereabouts of the borrower. At the same time the collection officer may not divulge the nature or extent of the borrower's relationship with the IIFC, make derogatory statements about the borrower, or divulge any confidential information known to the IIFC.
- Legitimate Local Authorities helping ICF collection: The Legitimate Local Authorities could be held to account in the case of delinquent ICF contractors that were certified by them earlier say in what way or ways. They will also understand that if many ICF contractors belonging to their communities become delinquent, sanctions will be placed on those communities in terms of restricting access to the financial services of IIFC.

REPOSSESSION/SALE OF COLLATERAL

The IIFC may repossess the collateral of a delinquent ICF in accordance with the laws of [the country name]. Although the IIFC does not enjoy the thought of repossessing a member's goods, at times it becomes necessary. Considering the emotional and legal aspects relating to this process, good judgment is extremely important. It can be a voluntary or involuntary repossession. The collateral should be repossessed timely before it loses any more value and sold to repay the ICF. Once the decision on repossession is made, every attempt should be made towards a voluntary repossession before proceeding to the less than appealing option of involuntary repossession.

If the member agrees to turn in the security, a "voluntary repossession statement" must be signed by the borrower and/or collateral owner and maintained in the borrower's ICF file for the further registration of the property title on the IIFC's name.

The sale of the repossessed collateral will be in accordance with prevailing legislation within the [country name]. The proceeds from the sale of the property will be applied as described in the

section entitled “Preference of ICF Payments”. When security/collateral is registered under the IIFC name it is ready for sale. To sell the voluntarily repossessed collateral the IIFC must receive three written bids and the property will be sold to the highest bidder. No property should be sold to any IIFC employee or their immediate family members. If the sale is more than the total balance due (includes all legal costs, storage costs, repair costs, and repossession costs), the amount over is given back to the member or collateral owner. In order to sell the property, the IIFC must have the following forms: 1) title, 2) bill of sale, and 3) agreement on the voluntary repossession. If there is a deficiency balance (the difference between the outstanding ICF balance and the amount the collateral was sold for, the court will decide if the member is responsible for paying this amount. It may be paid in one payment. If this is not possible, then payments should be made until the deficiency balance is paid.

If the member fails to repay the debt in the allotted time frame and will not voluntarily surrender the collateral, then it becomes necessary to repossess the security involuntarily. Involuntary repossession should commence as soon as the IIFC receives judicial approval. For all involuntary repossessions and collections performed by the court, payments will be made to the court and then remitted to the IIFC.

Involuntary repossession of the collateral should commence upon approval by the courts. Repossession is undertaken through use of certain legal mechanisms. Such legal mechanisms, depending on the type of security can be:

- Taking over property of the debtor (this alternative would be used for unsecured ICFs or if the value of the pledged collateral is insufficient to cover the outstanding balance),
- Taking over the collateral (in the case where the asset was pledged as ICF collateral), and
- Taking over the property of a co-signor (to be used when the ICF was guaranteed by a co-signer).

These options are used with the appropriate procedural forms in accordance with the current legislation of the [country name].

LEGAL/JUDICIAL PROCESS

Occasionally when all other collection attempts fail, the IIFC has no other choice but to take legal action and start judicial process against a delinquent account. To improve the chances of success it is vitally important that the IIFC strictly follow the legal requirements.

It is important to provide the borrower and the co-signer all chances and rights to cure the debt on the ICF prior to starting any legal action. It is preferred that a professional attorney handle all legal action on behalf of the IIFC. All legal fees incurred will be charged to the borrower, hence adding to the total debt owed to the IIFC.

Before proceeding with the judicial process the IIFC must do the following:

- Determine the amount of the debt based on the last day before undertaking these measures,
- Determine the unpaid principal and mark-up due,

- Calculate any additional charges as specified in the ICF agreement to compensate for the loss resulting in the delay of receiving the instalment payment(s),
- Determine costs incurred during the ICF recovery process caused by borrower's failure to fulfil his/her obligations, as specified in the ICF agreement,
- Determine the possibility of placing a lien on property of the debtor and/or third party,
- Establish the existence of such property, its value, and location,
- Determine the existence of liens by other creditors or the rights of others (such as minors) on the borrower's property,
- Consider the cost and time of placing a lien on the borrower's property in relation to the amount of the delinquent debt, and
- Take appropriate measures to determine the location of the borrower should it not be known.

In special cases the IIFC may delay commencing or continuing legal action to collect the ICF. However, such decisions must be well documented and justified.

NOTIFICATION OF CO-SIGNER

The co-signer is equally liable for the ICF in case the primary borrower fails to repay his/her ICF. When a member's payment becomes delayed, the co-signer shall assist in the collection of the delinquent repayment. In case of a delinquent payment, the co-signer has to be contacted at the same time the primary borrower is. The co-signer should receive all notices that the borrower does. The co-signer should always be made aware of the delinquency.

Action to recover from the co-signer shall be taken after completion of the collection efforts against the delinquent member and it becomes apparent that he/she is not going to pay, but no later than in 2 months after the ICF becomes delinquent. The co-signer shall be required to pay the outstanding ICF balance he/she guaranteed. Outstanding balance or periodical payment?

COLLECTION SYSTEM

When a member becomes delinquent a collection card (see appendix 4) will be established for the borrower. The system can be manual or computerized. The collection officer will organize the cards according to the days of month. The key to this system is consistent daily follow up on all promised payments, letters sent, personal contacts made, etc.

When the borrower's payment is 1 day late the collection card will be made up for the delinquent ICF. The copy of this card and all notices sent will be kept in the borrower's ICF file. The original collection card will be put in the collection file system. The designated IIFC employee – collection officer shall be responsible for the accurate maintenance of the collection file system.

The collection file system will be maintained as follows:

- There will be dividers for each day of the month and behind the day in which the borrower is to make the payment the card is to be placed. When the borrower makes a

promise to pay for the 20th of the month, the promise will be noted on the card and placed behind the 20th of the month.

- All actions taken to collect the delinquent ICF, any promises to pay, or comments made by the borrower will be recorded on this card. It is important that all of this information is placed in writing for legal purposes and to verify both to the officials and the borrower all that has been said and done with regards to the delinquent ICF.
- The 1st collection letter is sent and it gives the member a maximum of 5 days to make a payment, then the collection card will be placed behind the divider for the day 5 in the future.
- First thing each workday the person who is in charge of collecting will make or attempt to make contact with all borrowers who did not make a promised payment on the previous day.
- If contact is made with the borrower who did not make a payment and a believable promise to pay is made again, then the card will be placed behind the new payment date.
- If contact is not made or it does not appear that the borrower will make the payments then it should be decided whether to start judicial process and repossess the collateral or change the ICF terms so that the borrower is able to pay (see ICF Restructuring and Extensions).

ICF RESTRUCTURING

ICF restructuring occurs when the IIFC gives the borrower new payment conditions, different from the ones originally stipulated, because the borrower cannot make the payments in a timely fashion, according to the original terms.

The conditions necessary to approve the ICF restructuring are such that there is a permanent change in the basis on which the ICF was granted. Examples are: loss of a crop due to weather conditions for the agricultural ICFs, loss of job for personal ICFs, catastrophic disasters etc.

All ICF restructuring is to be approved by the Credit Committee or the BOD. The IIFC CEO or any individual employee does not have authority to approve ICF restructuring.

The following conditions must be met to approve ICF restructuring:

- Whatever caused the borrower to have trouble making the ICF payments has been changed or solved. For example - if the member lost his job, he must have a new one before an ICF restructuring can be granted.
- Three full monthly payments or 3 payments at an agreed upon (between the Credit Committee or board and the borrower) reduced payment are to be made prior to any ICF restructuring. This is important; it demonstrates the borrower's desire to repay the ICF.
- All mark-ups (admin charges) must be paid up to date. Under no circumstances should the mark-up be added to the principal balance when the ICF is restructured.

- All guarantors shall also sign the restructured ICF, and shall be notified when an agreement for payments different from the original terms is reached;
- The borrower must present all the documents required for a new ICF.
- Analysis of the borrower's capacity to repay the ICF under the new conditions should be conducted as for any new ICF application.

The ICF workout plan is an example of the ICF restructuring. In order to recover the ICF funds that were initially granted to the borrower, the ICF workout plan may be developed. Often this involves the member paying the outstanding mark-up and then the ICF is rewritten at a lower mark-up rate or for a longer term. This approach allows the member to afford the monthly payments. This should be used only with borrowers who demonstrate a real desire to repay the ICF. Members should not think that they could lower their monthly payments by being delinquent at the IIFC.

EXTENSION OF ICF TERMS

The ICF term extension is defined as an extension of the payment date granted to the borrower. There are many possible reasons why granting a member an extension agreement would be in the best interest of the IIFC. When used properly, extension agreements can develop positive member relationships.

If the payment of an ICF is temporarily interrupted and the member cannot make the agreed upon payment an extension may be granted but only for valid reasons. Extensions are often used if there has been a temporary fluctuation in the conditions faced by the borrower so that he or she is not able to make a timely payment, but the key assumptions on which the ICF was granted have not changed.

Circumstances could include disability, death of a family member or temporarily reduced income. Under such valid reasons the member can apply for an extension on his or her ICF. The member and the IIFC will negotiate the terms of the extension and the revised payment schedule. The extension should be granted only after three regular monthly payments and if the borrower is showing good faith. In some cases such as loss of income the IIFC can consider waiving the three months payment limits.

Whenever IIFC has to extend ICF terms it should try to improve its risk situation. This can be done by asking for more collateral, obtaining a co-signor, or by requiring that a significant payment on the owed principal be made.

Extensions should be requested before the monthly ICF payment is due. What if they are made after that? All ICF extensions have to be approved by the Credit Committee or the BOD. The CEO and employees have no authority to grant an extension.

The maximum ICF extension that can be granted is for 3 months. ICFs that have a maturity of less than 6 months can receive only a single extension with duration of one month. ICFs with maturity

between 6-12 months can be extended only a single extension for no more than 3 months. For ICFs with the maturity greater than 1 year, several extensions can be granted but the total of the extensions cannot be for more than 3 months. The reason for the extension must be documented in writing.

If for some reason the extended ICF becomes delinquent, no further extensions can be granted. The BOD shall approve any exceptions from these norms.

THE USE OF THE EXTENSION AGREEMENT SHOULD BE CLOSELY MONITORED TO ENSURE THEY ARE NOT USED AS AN ARTIFICIAL METHOD TO REDUCE DELINQUENCY.

Under no circumstances is the ICF extension process to be used simply because the member cannot pay or to remove the ICF from the delinquency list. If the ICF extension is used improperly, the IIFC is:

- Understating delinquency,
- Increasing liquidity problems, (if the borrower pays the mark-up (administrative charge) but the principal amount is extended then there is no access to ICF funds for other IIFC's members), and
- Decreasing the chance of full ICF repayment as with each extension the borrower's ability to repay becomes more questionable.
- IIFC should keep in mind the following items before extending the ICFs term:
- Qualification Criteria – Only those ICFs can be extended which are paid to the extent of 70 – 80 per cent.
- Evidence – IIFC has to see if there is any evidence of payment:
 - For example a person comes and pays two installments at a time and requests extension of the remaining ICF. IIFC might consider rescheduling this.
- Adverse Conditions – IIFC has to see if there is any type of adverse conditions:
 - If the harvest is not received yet and is expected soon;
 - If a major earning member of the family has died;
 - In case of natural disaster (only if it is expected that the borrower will have the ability to pay after some time);
 - And if the market conditions have changed drastically, for example the price of inputs has gone up or the price of outputs has drastically decreased.

IIFC should carefully analyze the situation before any decision is taken to extend an ICF. Every ICF does not automatically qualify for extension.

Note: Once the ICF and the Markup is rescheduled, there is no need to add additional charges into the same. For example if the principal amount rescheduled is US\$ 30 and the markup rescheduled is US\$ 1 so the borrower will only have to pay US\$ 31.

ICF REFINANCING

ICF refinancing is defined as granting a new ICF to a delinquent borrower in order to repay the currently delinquent ICF with the purpose of hiding the delinquency problem. ICF refinancing is prohibited.

CHARGING ICF OFF

When both management and the officials decide that the ICF is uncollectible it is to be written off. The ICF should be recommended to the BOD for charge off as a loss, when all collection efforts have been exhausted and the ICF is considered uncollectible. The ICF can be written off only if it is delinquent for more than 180 days.

Another option is to remove the ICF that recognized as “loss” (100per cent allowed) from the general account of the general ledger and place it in another asset account entitled “Problem Assets” instead of charging it off. With this accounting entry the appropriate ICF account is not overstated and the non-performing ICFs are clearly disclosed on balance sheet. These ICFs can be written off as soon as they are deemed to be uncollectible after all litigation actions are completed. The ICF write off does not mean that the IIFC cannot continue collection efforts. They should continue in hopes that the borrower’s financial situation will improve and they will be able to repay the IIFC.

How long should this go on for? All ICF write offs are approved by a majority vote of the BOD. The amount approved for charge off is to be less the amount received after liquidating the collateral and the member’s savings or shares. The approval of the write off should be noted in the minutes of the BOD with the following information: the borrower name, account number, and the charged off amount.

RECOVERIES MADE ON CHARGED-OFF ICFs

When an ICF is charged off, only the principal amount is charged off to the allowances for probable losses account (contra asset). All recoveries on charged off ICFs will be credited to the provision for probable loss account (expense).

PREFERENCE OF ICF PAYMENTS

Payments received from the debtor shall have the following payment preference:

- Legal or collection costs
- Administrative Charge or Mark-up
- Principal Amount

COLLECTION INTERNAL CONTROLS

In small IIFCs it is often difficult to have sound internal controls because of the limited number of employees. Wherever possible it is important to limit opportunities for fraudulent or illegal

activities. With this in mind the following internal controls are suggested along with the above policies and procedures:

- Persons who approve or disburse ICFs should not be permitted to work in the collections area.
- If possible, collection officers should not have access to cash.
- All other employees should be made aware of all delinquent accounts, so that delinquent members are not allowed to withdraw the amount of the delinquent payments or available savings from their accounts.
- The collection officer should regularly, not less than weekly, report to the CEO on all collection efforts made and results achieved.
- An officer other than collection officer (might be the CEO), should contact/visit all severely delinquent borrowers to verify the status/information reported by the collection officer. Such visits should be unannounced.
- Periodically both management and the officials should determine how ICFs were removed from the delinquency report. There are only 3 ways an ICF can be removed from the delinquency list:
 - The member fully repays the ICF.
 - The ICF is charged off to the Allowances for Probable Loss account.
 - The terms of the ICF were changed by restructuring or extending the ICF.
 - The terms of the ICF were changed artificially by manipulating the ICF due dates.
 - Management and officials should ensure that the ICF due dates are not being manipulated in order to lower IIFC delinquency.

APPENDIX 1

COLLECTION NOTICE 1

When a borrower is 5 days late in making their monthly payment they will be contacted by phone, mail or personal visit if they cannot be reached by phone. This first collection notice will be friendly, in hopes that they have just forgotten to make the payment and they are not having trouble making the monthly payment. This first notice requests payment be sent upon receipt of the notice but not more than 5 days from the date of the notice.

DATE _____

Dear _____,

We have not received your monthly payment that was due on _____
20xx_____ for _____ on ICF number _____.

We hope this is an oversight and would appreciate payment today, but not later than 5 days from the date of this notice. Please bring the payment today to the office. If you have already made your payment, we thank you.

If you are having trouble making your ICF payment, please contact our office to set up an appointment to discuss how we can help you make your payments on time every month. Remember that if you cannot pay on time you will be paying more because the administrative charge will also become bigger.

Sincerely,

IIFC CEO

APPENDIX 2

COLLECTION NOTICE 2

The second notice is sent and/or phone contact is made after there has been no payment in 10 days. This notice is much more serious in tone. This reminder asks that the borrower remit the payment immediately but not more than 5 days from the date of the notice and/or contact the credit union to discuss the problems causing the delinquency and to establish a workable solution or payment schedule.

DATE _____

Dear _____,

We still have not received your monthly payment that was due on _____,
20xx_____ for _____ on ICF number _____.

Please remit this payment today but not later than 5 days from the date of this notice.

By making late payments you are adversely affecting your credit rating at the IIFC. Late payments may cause problems in obtaining future ICFs.

As stated in the 1st notice, if you are having trouble making your ICF payment, please contact our office to set up an appointment to discuss how we can help you make your payments on time. If you do not contact this office, then it is assumed that you do not want to work with IIFC to solve this problem and this will force us to take further more severe collection actions.

I can be reached at _____ (phone number) during these hours _____.

Remember that if you cannot pay on time you will be paying more because the administrative charge will also become bigger. Also, the IIFC will be forced to request your co-maker for the payment if you do not settle your obligations upon receiving this letter.

Sincerely,

IIFC CEO

APPENDIX 3

COLLECTION NOTICE 3

The third notice is sent and/or phone contact is made after the payment is 20 days delinquent. This notice states that the co-signer will be asked to make the payment or the judicial process will be used to collect the loan and the collateral will be repossessed. At this point if savings are available to make the payment and the proper agreements are in place, then the amount needed to pay the loan current will be withdrawn from savings or shares. IIFC shall begin the repossession process before the collateral loses any more value. Otherwise, the courts will perform all of the collection work and remit the payments to the IIFC.

Remember it is very important that the IIFC follow through on what the notices say or the member will learn to disregard them.

DATE _____

Dear _____,

Your monthly payment that was due on _____, 20xx_____ for _____
On ICF number _____ has still not been received. If we do not hear from you by _____ (suggested - 5 days from the date of this notice) we will take all available legal steps to remedy your past due account.

We have sent you 2 previous notices requesting payment, which you have chosen to ignore. Your ICF is now 20 days late. This situation is considered very serious. The IIFC cannot allow your ICF to become any more delinquent. In not repaying your ICF, you make it more difficult for other members to obtain ICFs since funds are not being collected to make additional ICFs. You are also making it difficult for the IIFC to pay the operational expenses.

Obtaining credit is a privilege. If you allow this ICF to become more delinquent and do not resolve this problem immediately it will be difficult for you to obtain another ICF in the future.

You have until _____, 20xx_____, to resolve this problem.

I can be reached at _____ (phone number) during these hours

Sincerely,

IIFC CEO

APPENDIX 4

**COLLECTION CARD
DELINQUENT BORROWER COLLECTION CARD**

Member Name	Member Number
Address	Name of Co-signer
Telephone Number	Account Number of Co-signer
Place of Employment	Address of Co-signer
Employment Address	Telephone Number of Co-signer
Employment Telephone	Name of Co-signer's Employer
Original Amount of ICF	Employer's Address
ICF Purpose	Employer's Telephone Number
Original ICF Maturity (date)	Member Savings Balance
Original ICF Period (in months)	Co-signer's Savings Balance
Frequency of Payments	Collateral Description
Form of ICF Payment (payroll deduction, cash)	Collateral Value
Observations	Location of Collateral
	Condition of Collateral
	Description of any modifications to the original ICF contract

COLLECTION PROGRESS AND INFORMATION

Date of Collection Action	Type of Collection Action Taken	Results from Actions Taken and any Observations	Date of Next Action

APPENDIX 5

DELINQUENCY REPORTING TABLES

Table 1. IIFC ICFs Delinquency Analysis and Report as of XX, XX, 20xx

ICF Delinquency Aging	Amount (US\$)	Number of ICFs	Ratio of ICFs to Total (per cent) (amount)	Delinquent amount last period end	Number of ICFs last period end	Ratio of ICFs to Total (per cent) (amount)
Outstanding	243,500	333	100	244,500	344	100
Non-delinquent	180,500	241	73.92	193,500	269	79.14
1-30 days	9,500	14	3.90	31,000	34	12.68
31-60 days	33,500	38	13.76	6,000	12	2.45
91-180 days	6,000	12	2.46	12,500	25	5.11
180-360 days	14,000	28	5.75	2,000	4	0.82
Over 360 days	0	0	0	0	0	0
Total delinquent	63,000	92	26.08	51,500	75	20.86
Over 30 days	53,500	78	21.97	20,500	41	8.38

Table 2. IIFC Write Offs and Recovery Table for XX - XX, 20xx

This period write-off	This period recovery	Total Write-off	Total write-offs Recovered	Total write-off to total ICFs balance (per cent)	Total Recovery to Total ICFs balance (per cent)	Total write-offs to total recoveries (per cent)

Table 3. IIFC Delinquency Cause Analysis

Delinquency Cause	Previous period end delinquent ICFs (No.)	Current period collections (No.)	New Current Period delinquent (No.)	Net decrease or increase (No.)	Net decrease or increase (US\$)	Total delinquent (US\$)
Security/Travel						
Natural Disasters						
Collections/Local Elders						
Crop failure						
Market/price fall						
Fraud						
Poor ICF schedule						
Other factors						

Cause not known						
Exceptions						

Table 4. ICF approvals and disbursements

ICFs approved this period (amount)	ICFs approved this period (No.)	ICFs disbursed this period (amount)	ICFs disbursed this period (No.)	ICFs approved but not disbursed (amount)	ICFs approved but not disbursed (No.)	ICF requests denied (amount)	ICF requests denied (No.)	ICFs disbursed previous period (amount)

Table 5. Delinquency targets by aging category for next period end

ICF Delinquency Aging	Amount (US\$)	Number of ICFs	Ratio of ICFs to Total (per cent) (amount)	Delinquent amount next period end	Number of ICFs next period end	Ratio of ICFs to Total (per cent) (amount)
Outstanding	243,500	333	100			
Non-delinquent	180,500	241	73.92			
1-30 days	9,500	14	3.90			
31-60 days	33,500	38	13.76			
91-180 days	6,000	12	2.46			
180-360 days	14,000	28	5.75			
Over 360 days	0	0	0			
Total delinquent	63,000	92	26.08			
Over 30 days	53,500	78	21.97			

Table 6. Report on loan rescheduling as of XX, 20xx

Total rescheduled ICF (amount)	Total rescheduled ICF (No)	Rescheduled ICFs this period (amount)	Rescheduled ICFs this period (No)	Rescheduled ICFs repaid this period (amount)	Rescheduled ICFs repaid this period (No)

Related to Table 3 - Narrative of delinquency causes and collection:

Security/Travel. Brief summary of security situation preventing members to travel to IIFC to make payments, forecast on future developments and description of activities (if any) that will be undertaken to collect the delinquent loans.

Natural Disasters. The type of natural disaster affecting the ability of borrowers to repay such as Flood, Drought etc.

Collections/Local Elders. Summary of the reasons for non-performance of local elders and description of activities to collect the delinquent ICFs

Crop Failure. Description of the current conditions and summary of plans to recover principal.

Market Price Fall. Description of current condition and forecast for changes. Description if immediate activities to recover past due amounts

Fraud. Must list background of any fraud discovered and must detail activities taken and plans for full recovery.

Poor ICF Schedule. Explain why inappropriate repayment schedules have been included in the agreement, list steps taken to prevent such occurrence in the future and present actions to be taken correct the problem.

Other factors. List any other factors influencing delinquency. If they are material include a row in Table 3 and list it in this section separately. Provide summary of activities to collect delinquency.

Cause not known. Explain the reasons why delinquency cause has not been identified and provide a plan on how and when causes will be determined so that collections plan can be prepared.

Exceptions. List loans than currently cannot be collected due to security reasons, list those reasons and provide advice and justification if collection actions should be temporarily or permanently stopped.

Related to Table 5 – Delinquency Targets by Aging Category:

Based on your assessment and the trend of delinquency, please explain if you think that there will be shift from the 1 – 30 days category to a more unfavorable category.

Chapter Five

Provisions and Allowances for Bad Debts

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the guidelines and requirements for the IIFC on the evaluation of asset quality and the creation of adequate allowances for probable losses in order to reflect all risks associated with assets.

The individual Allowances for Probable Losses accounts' balances represent all known and potential losses by the asset categories. These "Allowances" accounts are presented on the asset side of the balance sheet as a contra asset account, which has a credit balance. This account has the effect of reducing the respective assets by the amount of potential losses so total assets are fairly stated. The offsetting entry or the debit is to an expense account, which is disclosed in the income statement. The funding of this account is considered a current period expense. Should an asset have to be written off, the balance (principal) amount only is debited to this "Allowances" account. The adequacy of this account as related to the delinquent ICFs and other bad assets should be reviewed monthly both by the IIFC management and the BOD. If there is an unforeseen increase in the ICF delinquency or deterioration in quality of other assets then the respective allowances account has to be increased accordingly. The provision account should always have an adequate balance to provide for all known and/or expected ICF losses on the delinquent ICF list and losses on other bad assets.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of daily operations and applicable legislative requirements.

DETERMINATION OF THE ADEQUACY OF ALLOWANCES

The adequacy of the allowances for ICF loss account is determined by reviewing the most recent month end delinquency report. On a monthly basis, the Accountant or designated employee is to determine the adequacy of the account and inform the CEO of the need for any adjustments. The allowances adequacy review should be documented and reported to the IIFC's CEO. The IIFC is required to provision Two per cent (2 per cent) for the non-delinquent ICFs and Two per cent (2 per cent) for ICFs between 1-30 days.

Depending on delinquency status, the ICFs will be reserved for as follows in the allowances for ICF loss account:

- Non Delinquent ICFs – 2per cent of the total amount in this category
- Delinquent ICFs – 1-30 days - 2per cent of the total amount in this category
- Delinquent ICFs – 31-60 days - 35per cent of the total amount in this category
- Delinquent ICFs – 61-90 days - 35per cent of the total amount in this category
- Delinquent ICFs – 91-180 days - 50per cent of the total amount in this category
- Delinquent ICFs – above 180 days- 100per cent of the total amount in this category

The adequacy of the allowances for probable losses on the assets other than ICFs is determined by the monthly assessment of their quality by each account and contract. If there is any evidence that the contract or receivable will be not be settled in a timely manner (collected, repaid) the CEO jointly with the Accountant need to assess the probable losses (uncollectible amount) that will be the required balance for allowances for probable losses.

The CEO should approve all monthly increases or decreases made to the account because of the above analysis. The analysis of the assets quality and ICF delinquency as well as adequacy of the allowances for probable losses should be presented to the IIFC BOD at the monthly meeting and noted in the board minutes.

CHARGING AN ASSET OFF

When both management and the officials decide that an asset is uncollectible it is to be written off. The ICF can be written off only if it is delinquent for more than 180 days. However, the assets should be written off only after all formal collection actions are completed and probability of its repayment is minimal.

Another option is to remove the asset that recognized as “loss” (100 per cent allowed) from the general account of the general ledger and place it in another asset account entitled “Problem Assets” instead of charging it off to the allowances for probable loss account. The required allowances for probable losses amount should be also transferred to the corresponding allowances account under “Problem Assets”. With this accounting entry the appropriate asset account is not overstated and the non-performing assets are clearly disclosed on balance sheet. These assets can be written off as soon as they are deemed to be uncollectible after all litigation actions are completed.

All assets write offs are to the allowances for probable losses account (contra- asset). Assets write off does not mean that the IIFC cannot continue collection efforts. They should continue in hopes that the payer’s financial situation will improve and they will be able to repay the IIFC.

All assets write offs are approved by a majority vote of the BOD. The amount approved for charge off is to be less the amount received after liquidating the collateral and the member’s savings or shares, if the proper agreement is in place to take the member’s saving in the case of non-repayment. The approval of the write off should be noted in the minutes of the BOD with the following information: the payer’s (borrower’s) name, account number, and the charged off amount.

RECOVERIES MADE ON CHARGED OFF ASSETS

When an asset is charged off, only the principal amount is charged off to the allowances for probable losses account (contra asset). All recoveries on charged off assets will be credited to the provision for probable loss account (expense).

PERIODIC REVIEW OF THE ALLOWANCES ACCOUNT

On a quarterly basis the Board of supervisors has to review the entries in the allowances for probable loss account to ensure that the allowances are adequate (not less than the required amount) and no assets have been written off that were not approved. There are only 2 types of entries that are made to the account:

- the entry to increase or decrease the account balance per the monthly review of the delinquent ICFs and other non-performing assets, and
- The entry to write off an ICF or another asset after it has been determined that it is uncollectible (this will decrease the account balance).

Any other entries should be carefully researched to determine that no fraudulent activity has taken place.

The amount of all charged off ICFs (assets) has to be compared to the amount approved and noted in the Board's minutes. The amount approved in the Board's minutes should be less any remaining savings or shares the payer (borrower) had at the IIFC or less the amount received on any repossessed and liquidated collateral. Under no circumstance should there be any difference between the approved and charged off amounts.

The IIFC's CEO, board of supervisors and BOD shall perform a trend analysis using the following ratios which address adequate provisioning for potential ICF losses:

Ratio	Goal
Actual balance of Allowances for ICF losses/(2 per cent of non-delinquent ICF and ICF delinquent for 1-30 days + 35 per cent of ICFs delinquent for 31- 90 days + 50 per cent of ICFs delinquent for 91-180 days + 100 per cent of ICFs delinquent for more than 180 days)	minimum – 100 per cent
Allowances for probable losses on assets other than ICFs/Actual balance of all other uncollectible assets (other than ICFs)	minimum – 100 per cent
Net ICFs Charge off/Average ICFs	maximum – 1 per cent

RESERVE REQUIREMENTS FOR DEATH ALLOWANCE

- **Background:** An Islamic Investment and Finance Cooperative is required to have a strong social mission and care for the community. In the underdeveloped world, it has been noticed that borrowers, board members and in some cases staff members of the IIFCs suffer a higher death rate compared to those in the developed countries; at times due to civil conflicts. This has caused the IIFC to introduce a death allowance fund to help the families of victims. IIFC are organizations with social responsibility and adherence to their social role keeps the cooperatives idea alive and active.

Only the families of borrowers, current staff members, registered board members, Credit Committee members, and members of board of supervisors can benefit from this fund.

This fund is provided free of any kind of cost and is only done in order to create goodwill amongst the community in large and within the IIFC itself.

- **Computation:** IIFC should create at the month-end reserves of death allowance equivalent to 0.25per cent of the Total ICF outstanding. If 0.25per cent of the Total ICF outstanding is less than US\$ 200, then the amount of US\$ 200 must be used as the month's reserves amount. The family of the person deceased or killed must be paid US\$200 only.

The IIFC must create a new account named Reserves for Death Allowance on its Chart of Accounts (CoA) under the Reserves category of the existing CoA.

The idea is that IIFC should compute the amount for the reserves for death allowance amount exactly at last day of a specific month based on 0.25per cent of total ICF outstanding at that day. This amount is to be used during the month that starts right after the day in which the computation is made. Obviously, such funds will only be used if deaths take place during the month. If not used, the reserves should be adjusted (zeroed out) at the end of the month. This reserve fund is only to be used during the month, if not used it must not be accumulated from month to month. The purpose of this reserves fund is only to deal with the death incidents during the month, not beyond.

- **Accounting Treatment:** At the month end, the IIFC Accountant should compute 0.25per cent of the Total ICF Outstanding and enter into Core-banking system the following entries:

Entry No.	Account	Dr.	Cr.
1	Undistributed Current Year Income Reserve for Death Allowance	Xxx	xxx

It is important to note and understand as to what happens after the funds are reserved. There are various scenarios that might take place, each of these scenarios require different accounting entries to be passed into Core-banking system. For example, the IIFC might compute the reserves for death allowance and might have no death incidents and the funds will not be utilized at all. Or several death incidents take place, for which the entire reserves fund is utilized, or there might be few incidents and the funds might be partially utilized.

Further on it is important to understand that IIFC must compute these reserves at the last day of the month to be used during the month that starts right after the computation day. The amount of reserves computed at the last day would depend on whether the previous month's funds are fully, partially or not utilized.

In order to clarify the accounting entries for each of the above scenarios, the following details are provided:

Example:

Let's assume that Total ICF Outstanding of IIFC of 30th April 20XX (last day of the month) is US\$ 320,000. So 0.25per cent of this amount equals to US\$ 800 and this amount is already reserved as death allowance fund for May 20XX.

Entry No.	Account	Dr.	Cr.
1	Undistributed Current Year Income Reserve for Death Allowance	800	800

Scenario 1: Amount of reserves fund is not utilized during May 20XX as there are no death incidents:

Entry No.	Account	Dr.	Cr.
1	No entries are passed during May 20XX		

As the reserves fund of May 20XX are not utilized during the month, therefore, we have to adjust (zero-out) it. And we have to create reserves on the last day of May 20XX for June 20XX. Therefore, we have to check the total ICF outstanding amount as of May 31st 20XX. Depending on this amount, the following cases can take place:

- Total ICF outstanding amount of May 31st 20XX is US\$ 400,000 which is more than the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 1,000 which is more than the previous booked figure. So the following entry is passed as of May 31st 20XX as reserves fund for June 20XX:

Entry No.	Account	Dr.	Cr.
1	Undistributed Current Year Income Reserve for Death Allowance	200	200

- Total ICF outstanding amount of May 31st 20XX is US\$ 260,000 which is less than the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 650 which is less than the previous booked figure. So the following entry is passed as of May 31st 20XX as reserves fund for June 20XX:

Entry No.	Account	Dr.	Cr.
1	Reserve for Death Allowance Undistributed Current Year Income	150	150

- Total ICF outstanding amount of May 31st 20xx is US\$ 320,000 which is same amount as the previous date (end of April 20xx), thus 0.25per cent of this comes to US\$ 800 which similar to the previous booked figure. So no entries would be passed as the amount already exists in the system as reserve funds for death allowance. However, the description of the entry should say that the reserves fund is to be used for June.

Scenario 2: Amount of reserves fund is partially utilized during May 20XX as there are two death incidents which means US\$ 400 should be paid (US\$ 200 each family):

Entry No.	Account	Dr.	Cr.
1	Reserve for Death Allowance Cash or Bank	400	400

As the reserves fund of May 20XX are partially utilized during the month, therefore, we have to adjust the remainder (zero-out) it. And we have to create reserves on the last day of May 20XX for June 20XX. Therefore, we have to check the total ICF outstanding amount as of May 31st 20XX. Depending on this amount, the following cases can take place:

- Total ICF outstanding amount of May 31st 20XX is US\$ 400,000 which is more than the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 1,000 which is more than the remaining portion of previous booked figure. So the following entry is passed as of May 31st 20XX as reserves fund for June 20XX:

Entry No.	Account	Dr.	Cr.
1	Undistributed Current Year Income Reserve for Death Allowance	600	600

- Total ICF outstanding amount of May 31st 20XX is AFA 100,000 which is less than the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 250 which is less than the remaining portion of previous booked figure. So the following entry is passed as of May 31st 20XX as reserves fund for June 20XX:

Entry No.	Account	Dr.	Cr.
1	Reserve for Death Allowance	250	

	Undistributed Current Year Income		250
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- Total ICF outstanding amount of May 31st 20XX is US\$ 160,000 which is same amount as the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 400 which is similar to the remaining portion of previous booked figure. So no entries would be passed as the amount already exists in the system as reserve funds for death allowance. However, the description of the entry should say that the reserves fund is to be used for June.

Scenario 3: Amount of reserves fund is fully utilized during May 20XX as there are four death incidents which means US\$ 800 should be paid (US\$ 200 each family):

Entry No.	Account	Dr.	Cr.
1	Reserve for Death Allowance Cash or Bank	800	800

As the reserves fund of May 20XX are fully utilized during the month, therefore, we have to create reserves on the last day of May 20XX for June 20XX. Therefore, we have to check the total ICF outstanding amount as of May 31st 20XX. Depending on this amount, the following cases can take place:

- Total ICF outstanding amount of May 31st 20XX is US\$ 400,000 which is more than the previous date (end of April 20XX), thus 0.25per cent of this comes to US\$ 1,000 which is more than the remaining portion of previous booked figure. So the following entry is passed as of May 31st 20XX as reserves fund for June 20XX:

Entry No.	Account	Dr.	Cr.
1	Undistributed Current Year Income Reserve for Death Allowance	1,000	1,000

Note: Case b) & c) are not possible for scenario 3.

Note: When IIFC pays for any death incidents, the officials must check the amount available in the reserves fund, as it is created for this purpose. If the reserve funds are less than the amount needed for the death incidents, IIFC must not pay additional amounts. The idea of creating reserves is solely for the purpose of a specific amount put aside every month for such incidents, if not IIFC could pay for any death incidents without creating reserves. However, if the IIFC officials feel strongly about paying the affected families, they must seek the approval of the BOD.

PROVISION FOR ICF LOSS PROCEDURES

- The Accountant or designated employee is to obtain the month end delinquent ICF report. The report should be available within 5 days after the month end. Using the report they are to determine how much is needed in the allowances for ICF loss

account (contra asset) to provide for all delinquent ICFs. The analysis is performed as follows:

Depending on delinquency status, the ICFs will be reserved for as follows in the allowances for ICF loss account:

- Non Delinquent ICFs – 2per cent of the total amount in this category
- Delinquent ICFs – 1-30 days - 2per cent of the total amount in this category
- Delinquent ICFs – 31-60 days - 35per cent of the total amount in this category
- Delinquent ICFs – 61-90 days - 35per cent of the total amount in this category
- Delinquent ICFs – 91-180 days - 50per cent of the total amount in this category
- Delinquent ICFs – above 180 days- 100per cent of the total amount in this category

Required allowances for ICF losses amount = (2per cent of non-delinquent ICF and ICF delinquent for 1-30 days + 35per cent of ICFs delinquent for 31- 90 days + 50per cent of ICFs delinquent for 91-180 days + 100per cent of ICFs delinquent for more than 180 days)

- Each month this calculation will be made and the amount needed will be compared to the outstanding balance as of month end in the provision for ICF loss account.
Required increase/decrease in the allowances for ICF losses amount = required amount – Current (outstanding) balance in the allowances for ICF losses account
- The IIFC CEO shall approve the increase or decrease in allowances based on the analysis presented by the designated employee.
- The Accountant shall make the required accounting entries based on the IIFC CEO's approval:
If the account is understated then the provision account will be increased by crediting the account for the difference and debiting the associated expense account.
If the opposite is true the account may be decreased by debiting the provision account and crediting the expense account.
- All ICF charge offs shall be approved by the IIFC's BOD based on the analysis presented by the CEO.
- Should an ICF have to be written off, the principal amount only is debited to the allowances for ICF losses account. The debit entry reduces the balance of this account. If there is accrued mark-up receivable for the ICF that is being written off the amount is reversed or deducted from the accrued income account (debit mark-up income account – income statement, credit mark-up receivable account – assets). Related costs

and expenses associated with collections are absorbed by the IIFC in the appropriate expense account.

- If the borrower then repays the written off ICF, principal payments are credited to the provision for ICF loss account (expense), recovered mark-up to income account and associated expenses are credited to the appropriate expense account(s).
- The following are the entries that can be made to the allowances for ICF loss account (contra asset):
 - a credit or debit to increase or decrease the account on a monthly basis following the review of the delinquency list,
 - To increase the account (because the account balance is understated)
 - Debit – Provision for ICF losses (expense account)
 - Credit – Allowances for ICF losses (contra assets account)
 - To decrease the account (because the account balance is overstated)
 - Debit – Allowances for ICF losses (contra assets account)
 - Credit – Provision for ICF losses (expense account)
 - a debit to write off ICFs that have been approved by the BOD,
 - Debit – Allowances for ICF losses (contra asset account)
 - Credit – ICFs or Assets under Litigation (asset account)

Chapter Six

Assets and Liability Management Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the standards and requirements for the Islamic Investment and Finance Cooperative (IIFC) on establishing an assets and liability (ALM) management system, defines tools and methods to be used to monitor the ALM position and sets the responsibility on effective implementation of the ALM management.

Asset liability management (ALM) can be broadly defined as the continual rearrangement of both sides of the IIFC's balance sheet in order to maintain reasonable profitability, to minimize interest rate risk, and to provide adequate liquidity. The efficiency of the ALM analysis depends on the level of involvement and understanding of the elected officials and executive management, and the quality of their decisions. When the officials declare a dividend rate on shares and savings or change mark-up rates on ICFs, they are engaging in ALM. These decisions can impact liquidity and profitability. ALM strategies and techniques depend on the IIFC's capital structure, the products and services offered, the terms of ICFs and savings, and the level of the officials' and management understands. At the very minimum the ALM system should be based on the following:

- Awareness of the members' savings and ICFs needs;
- Access to a line of credit for short-term liquidity needs;
- Relatively short-term investments;
- Ability to adjust dividends and mark-up rates to changes in the market; and
- Adequate earnings and capital.

Simply stated ALM is another form of planning. It allows management to be proactive or anticipate change, rather than react to unanticipated change. Successful ALM is composed of the following:

- Matching assets and liabilities with regards to maturities and interest rates.
- Determining the core share and savings base in the IIFC that can be matched against longer term assets to alleviate interest rate risk.
- Identifying the minimum net interest margin (gross income – cost of funds) necessary to fund operating expenses and contributions to capital.
- Liquidity management – how much money is needed daily to fund operating expenses, savings withdrawals, and ICF demand.
- A commitment by the BOD and management to change both savings and ICF rates as changes occur in the local market. The rate changes on both sides of the balance sheet should be proportional.

POLICY REVIEW

The IIFC's BOD will be responsible for formulating, reviewing, and adjusting this policy. On an annual basis the Board will review the policy and make changes if necessary so that it is reflective of daily operations, members' needs and market conditions.

RESPONSIBILITY AND AUTHORITY

The BOD is responsible for monitoring the ALM position of the IIFC and making any necessary changes. The IIFC's CEO is responsible for performing the analysis of the liquidity and ALM positions as discussed below and providing that information to the Board monthly or no less than quarterly, depending on the transaction activity of the IIFC.

MARKUP RATE RISK (INTEREST RATE RISK)

Markup rate risk is defined as the risk that changes in the current market interest rates will adversely impact the institution's financial performance. For example, if, due to changes in the market, the IIFC were forced to adjust the dividend rate on savings upward to remain competitive, but its earning assets were concentrated in long-term, fixed-rate ICFs and investments, then its financial performance would be impaired because the institution would not be able to adjust its markup. Income earned on ICFs upward as quickly as the cost of funds was increasing. Markup rate risk to some degree is unavoidable, but it is manageable. Markup rate risk may increase in the following scenarios:

- When longer-term fixed rate ICFs and investments are funded with savings that are short-term and can be reprised quickly or have variable dividend rate with short-term adjustment periods. For example, a one-year fixed rate ICFs is funded by certificate share savings with a three-month maturity or with a one-year maturity but where dividend rate adjusts quarterly.
- As a result of high or unpredictable inflation. If members deposit their funds in the IIFC when inflation is high, they expect to earn a "real" rate of return. In order to pay a real rate of return, the institution must earn enough on the assets to pay the real rate of return on the liabilities. This scenario requires that management constantly monitor interest rates and make adjustments to assets and liabilities in a timely fashion. The effect of inflation would be exacerbated if the ICFs and investments were fixed rate (mark-up and dividend rates could not be changed) and savings were short-term or with variable dividend rates.
- If the assets and liabilities have a high sensitivity to interest rate changes. Assets and liabilities which are considered highly sensitive to interest changes include: lines of credit and borrowings from banks and other financial institutions, large savings, and any savings being paid above market dividend rates.
- When the local market is competitive. Competition usually reduces the margin between the interest rate charged on ICFs and the rate paid on savings. In a competitive environment, the institution may not be able to increase rates earned on ICFs or lower the rate paid on savings without affecting client demand and the profitability of the

institution. The IIFC's CEO should strive to reduce or manage the effect interest rate risk will have on the IIFC's profitability. There are numerous ways in which management can reduce interest rate risk:

- ICFs and investments can all have short-term maturities. As ICFs are repaid and savings mature, then the interest rates can be adjusted as needed to maintain profitability. However the shortness of the term allows management to eliminate interest rate risk, but may impact profitability, since this approach reduces the type of ICFs and savings products that may be offered and the level of service provided to members.
- If the IIFC has the capacity, the CEO of IIFC can use variable markup to manage risk. Variable rates allow the IIFC to grant longer-term ICFs as long as the CEO has the ability to change mark-up rates on a monthly or quarterly basis. With variable rates the member assumes the interest rate risk on ICFs if rates should increase and the IIFC assumes the risk of increasing rates on savings.

Interest rate risk can be managed by matching the maturities and markup rates of ICFs and investments with the maturities and dividend rates of savings, shares and external credit in order to maintain adequate profitability. This is known as gap management, or the management of the spread between interest rate sensitive assets and interest rate sensitive liabilities.

MONITORING OF THE ALM POSITION

Ratio analysis can be helpful to management and officials in identifying positive and negative trends. In order to identify trends the analysis should be done over at least 1 year. This will help management identify liquidity peaks and valleys and help manage those time periods more effectively. In order to make timely and correct ALM decisions the IIFC's CEO should calculate the following ratios identifying IIFC's ALM position and present them to the BOD, at least, quarterly along with recommendations on the required adjustments and modifications:

Net ICFs/Total Assets

Accounts:

- a. Total Gross ICF Portfolio
- b. Total Provision for ICF Losses
- c. Total Assets

Formula: $(a-b)/c$

The maximum desirable ratio usually does not exceed 80per cent. However, this can differ depending on the balance sheet structure.

This ratio measures the percentage of total assets that are invested in the ICF portfolio. When granting ICFs, management should be careful not to have a concentration: of ICFs to borrowers having the same occupation, in the same type of ICFs or collateral securing the ICF. This could pose a risk to the capital and the financial health of the IIFC. Management should determine a

maximum ratio that they are comfortable with and it should not be exceeded in order to avoid liquidity problems.

Core Savings Ratio

Accounts:

- a. Core Savings (as defined below)
- b. Total Assets

Formula: a/b

The core savings ratio is designed specifically to identify stable savings that can be used to fund longer-term assets. This ratio eliminates the volatile portion of the savings mass and emphasizes the stable base of savings which the IIFC can rely, regardless of seasonal swings. Core savings can be estimated by plotting the volume of total savings over time and drawing a line through the low points of the graph. This base line represents the trend in the minimum or core savings, below which in all likelihood the actual savings level will never fall.

The denominator of this ratio may be changed to total ICFs, total ICFs with a maturity greater than 12 months, or total savings. If the denominator is total ICFs, the ratio would indicate the percentage of the ICF portfolio that was funded by stable savings and unstable savings. A large result or percentage is indicative of an ICF portfolio funded by stable funds. Liquidity and ALM concerns should be less in this scenario. Using the denominator of total ICFs with a maturity greater than 12 months (the time period or number of months stated should represent longer-term ICFs), the ratio indicates the amount of longer-term ICFs that are financed by core savings. It is optimal as far as liquidity and ALM are concerned to have core savings, which are considered long-term, matched with long-term ICFs and other assets. Total savings as a denominator measures the percentage of savings that are core savings. The larger the percentage, presumably the more stable the savings base.

The more stable the funds, the easier it is to control liquidity and ALM. Therefore a large result or percentage is desirable and indicates a more solid financial institution.

Liquidity Ratio

Accounts:

- a. Total Earning Liquid Assets
- b. Total Non-earning Liquid Assets
- c. Total Withdrawable Member Shares

Formula: $(a + b)/c$

This ratio measures the adequacy of the liquid cash reserves to satisfy share savings withdrawal requests. The goal of successful liquidity management is to have enough liquid funds to meet all member requests and operating expenses with any excess funds invested in markup-earning accounts and/or investments. Normally, liquid assets have a lower yield because the risk associated

with this deposit is perceived to be less. Because of the lower yield, only enough funds to meet liquidity needs should be maintained in these accounts.

Under a normal operating scenario, this ratio should not be less than 20per cent. This can vary greatly if the IIFC has periods where ICF and savings demand increase significantly.

Non-earning Assets/Total Assets

Accounts:

- a. Cash on Hand
- b. Non-Interest bearing Current Account
- c. Accounts Receivable
- d. Assets in Liquidation (repossessed collateral awaiting sale)
- e. Fixed Assets (land, building, equipment)
- f. Prepaid Expenses
- g. Total Assets

Formula: $(a+b+c+d+e+f)/g$

This ratio measures the percentage of the IIFC's total assets that are not earning income. These assets do not contribute to net income or capital and therefore should be kept at a minimum. If investment in these types of assets is excessive (especially fixed assets) the IIFC may not have sufficient liquidity to meet member ICF demand, savings withdrawals and operating expenses.

Under normal operating conditions this ratio should not exceed 5-10 per cent.

ICF Turnover Ratio

Accounts:

- a. ICFs outstanding at the end of prior year
- b. ICFs granted during the current period
- c. ICFs outstanding for the current period

Formula: $a/(a+b-c)$

This ratio is used to determine how quickly the ICF portfolio “rolls over” or matures. The lower the result the faster the ICF portfolio matures. In this scenario, liquidity and ALM should be easier to manage because the ICF portfolio repayment is high, thus allowing management access to funds (ICF repayments) to provide sufficient liquidity and funding of new ICFs and investments. However, ICF refinances and one-payment ICFs will distort this ratio. ICF refinances will reduce the ICF turnover ratio because the ratio calculation considers these ICFs to be paid in full. One-payment ICFs will increase the ratio because no payments are made that reduce principal until ICF maturity. Because of these characteristics, refinances and one payment ICFs should not be included in the calculation if they are material and it is possible to separate this information.

Net Interest Margin

Accounts:

- a. Gross Income
- b. Total cost of savings and external funds
- c. Operational Expenses
- d. Provisions for possible losses on ICFs and other assets
- e. Total dividends on capital shares
- f. Total Contributions to Reserve Capital needed to meet the capital adequacy requirement

Formula: $(a - b) / (c + d + e + f)$

This ratio determines the amount of gross income available to cover operating expenses and contributions to capital after all dividends on shares and savings have been paid. Management should determine the minimum net interest margin that must be maintained in order to meet all operating expenses and capital contributions. Analyzing the net interest margin trend provides insight to the effect of management's past pricing decisions.

In order to increase and maintain the IIFC's financial sustainability the ratio should not be less than 100 per cent.

GAP ANALYSIS

Gap analysis is a tool used by credit unions to analyze the match between rate sensitive assets (RSA) and rate sensitive liabilities (RSL). If RSAs and RSLs are evenly matched the effects of interest rate changes will be minimized while profitability is maximized. RSAs and RSLs are those assets and liabilities that mature or can be priced either upward or downward in the short-term. RSAs are ICFs or investments with yields that respond to changing short-term mark-up and dividend rates. The change may be contractual in nature such as a variable rate ICF and/or due to maturity of the asset. RSLs have terms that respond to changing short-term dividend rates such as certificate share savings or external credit (investments of the third parties).

Gap analysis is performed on a spreadsheet. The assets and liabilities are assigned to time periods (0-1 month, 1-2 months, etc) based on their maturities. This is relatively simple for components such as investments and certificate share savings in which the total amount matures on a specific date. But more complex if the RSA or RSL do not have a stated maturity such as a regular savings account or the total outstanding balance of the RSA or RSL does not mature all at once, but over a specified time period such as member ICFs due to partial principal repayment during the ICF term. Gap analysis also considers the reprising opportunities of the assets and liabilities, when all or part of the assets and liabilities will be available for reinvesting at the prevailing interest rates. The culmination of the analysis is the:

- Gap or the total of RSAs – RSLs for each time frame; and

- Gap ratio, which divides the above result, or gap by total assets. The gap ratio puts the gap in perspective to the IIFC's size. (A gap of US\$ 1,000 would not be material for an IIFC with US\$ 20,000 in assets, but it would be for an IIFC with US\$ 4,000 in assets.)

The gap and gap ratio results can be positive, negative or zero. If an IIFC has a positive gap, this indicates a more asset sensitive position (RSAs re-price quicker than RSLs). With a negative gap, RSLs are re-pricing more quickly than RSAs within the time period. A gap of zero indicates that the RSAs and RSLs for the time period are evenly matched.

While gap analysis provides an important tool for judging RSAs as compared to RSLs, it has limitations:

- The gap ratio assumes that all rate sensitive accounts reprice equally;
- It is not useful in determining how RSAs and RSLs should be positioned with regards to maturity to maximize profitability;
- It is similar to a balance sheet as it is only a snapshot in time, it does not measure the effect of multiple interest rate changes over time; and
- It relies heavily on the assumptions that were used to create the report; if the assumptions are incorrect then the information is useless.

ALM PARAMETERS

The following ICF and investment maturity requirements are based on the ICF and investment policies. These ALM parameters address liquidity needs and the matching of assets and liabilities to avoid maturity mismatches and unnecessary interest rate risk.

- If ICFs secured by savings and other personal collateral such as vehicles, jewelry and appliances or secured by the guarantees are offered then the maximum maturity is 1 year.
- No investment will have a maturity greater than 6 months. Investment dividend rates are _____ (fixed or variable). If variable, how often do the rates adjust? _____. Are there minimum and maximum rate adjustments or can they follow rates no matter what the change is?_____.
- These assets will be matched against shares and savings. Management needs to determine what savings are longer term (> 6 months) and can be used to fund the longer-term assets (> 6 months).
 - Longer-term regular savings account funds are defined as those savings that will remain in the IIFC when there are changes in the market rates and the IIFC does not change their regular savings account rates accordingly. These savings have a low degree of dividend rate sensitivity. Long-term savings can be determined by reviewing the monthly activity in the savings accounts for several months and arriving at the low average monthly balance.
 - A portion of the low average monthly balance may be used to fund longer term assets.
- Depending on the stated maturity, certificate share savings can also be considered longer term.

- Six month term share savings will be matched with ICFs that have a six month maturity.
- Twelve month term share savings will be matched with ICFs that have a twelve month maturity.
- Investments will be matched with shares and savings that have a like maturity.
- Non-earning assets will be matched against the IIFC's no cost liabilities and reserve capital.
- To alleviate interest rate risk, and to allow management flexibility should inflation remain a concern, all ICF and savings rates for maturities greater than 3 months will have a variable rate (if the IIFC is automated and has the capacity to change rates).
- The rate can be changed with a _____(number of days) notice. The mark-up rate on the ICF will be tied to the _____ (the IIFC's cost of funds – which should represent the market rate). The rates on both ICFs and savings are to be tied to some indicator that is reflective of market changes. If the IIFC is to use their cost of funds which is based on the local market rates to set ICF rates, management is to ensure that the rate on ICFs is high enough to cover operating expenses and capital contributions in addition to the cost of attracting savings to the IIFC.
- The BOD must be committed to increasing ICF and savings rates proportionally and as market rates change. (Frequently, IIFCs increase savings rates quickly so the members receive competitive return on their savings but they do not increase the ICF rate proportionally or as quickly with the result that profitability is adversely affected).
- The maximum net ICFs to assets ratio is 80 per cent.
- The minimum liquid assets (total earning liquid assets + total non-earning liquid assets) to member withdrawable shares and savings is not less than 20 per cent, which under normal circumstances should assure adequate liquidity to meet ICF demand, savings withdrawals, and the payment of operating expenses.
- Lastly, management should perform an analysis to determine what minimum net interest margin (gross income – cost of funds) is needed to fund operating expenses and capital contributions to meet the risk capital to total assets ratio stated in the Capital Policy.
 - This information can be attained from the annual budgeting process. The annual budget should project a gross income that is large enough to cover operating expenses, cost of funds, and capital increases. This is important because below this point the IIFC's profitability is inadequate. Prior to reaching this point management and the officials should make changes, so that profitability is not adversely effected.

ALM PROCEDURE

- The following procedures should be performed at least quarterly and no less than semi-annually.
- The ICF portfolio and the member savings information should be broken out according to term. (Depending on the IIFC's Core-banking system, this can be easy or

very difficult. Some systems will be able to break this information out by account term and the outstanding balance. It is much more labor intensive if the system is manual.) With regards to ICFs, if no more accurate information exists than the ICF turnover ratio, that shall be used to distribute the ICF portfolio by term.

(See Appendix 1 for an example of a spreadsheet that can be used to determine the matching of assets and liabilities.) Asset and liability terms are matched to alleviate interest rate risk when the rates and terms are fixed through the life of the ICF. It can be very dangerous in a rising interest rate market if short term savings (in which the rates can re-price upwards immediately) fund longer-term fixed rate ICFs (these ICFs continue to earn mark-up rate at the previously lower rates under which they were granted). In this scenario, the IIFC can have a very serious profitability problem. So serious that that it could affect the future of the IIFC.

** NOTE – As long as the rates are variable on savings and ICFs and the board is committed to changing both the savings and ICF rates so that they reflect market and the true cost of funds and cost of granting ICFs then the matching of asset and liability terms is not that important.

- Remember many members are willing to give up a portion of the return on their savings for access to their money. The portion of the demand savings accounts or core savings that remain in the IIFC because of loyalty or other factors can be used to fund longer-term assets. Management can determine this by reviewing the average demand saving account balance per member (total demand saving account balance/number of demand saving account holders) or the average low monthly balance for the demand saving accounts over several months.
 - As dividend rates change in the market what happens to the account balances?
 - As dividend rates increase on certificate share savings faster than on the demand saving account, what portion of the total demand saving account balance is moved to the higher paying certificate share savings or leaves the IIFC and what portion remains in the lower paying demand saving account? A percentage of the amount that remains in the demand saving account is to be used to fund longer-term assets.
 - Another problem with long term ICFs is the payments are usually smaller and spread out over a longer time period so the principal recovery is usually slower. These ICFs can cause a liquidity problem. That is why it is important to maintain the minimum liquidity ratio of not less than 20 per cent.
- The annual budget should project a gross income that is large enough to cover cost of funds, provisioning for ICF losses, operating expenses, and capital increases. The actual financial results are to be compared to the budgeted numbers. If the budget projections are not achieved, operating changes should be made so that the short-term capital ratios (see Capital Policy) that were established to meet the long term goal ratio can be achieved. The IIFC can be very well matched with regards to asset and liability

terms but if there is not sufficient net income to sustain the IIFC then the matching is not relevant.

- Management must ensure there is adequate liquidity on a daily basis to satisfy ICF demand, savings withdrawals, and operating expenses. This information can be obtained by reviewing past activity in the cash account.
 - What were the total of the daily credits and debits in the account? Use at least 3 months of data to determine the average daily need, taking into consideration any seasonal periods in which cash flow changes.
- Any assumptions that are used to perform this procedure are to be placed in writing. Written assumptions assist in the periodic review of the ALM information.
- Upon completion of the above analysis, if it is determined that assets and liabilities are not well matched then officials and management should attempt to improve the assets and liabilities mix by marketing for ICFs and savings of the desired type and maturity. If the net interest margin is not sufficient then:
 - Increase income by increasing ICF rates and/or fees,
 - Decrease the cost of funds by decreasing the dividend rates paid on all savings accounts (This is always the fastest way to decrease expenses because the effect is immediate, but is limited as can lead to significant outflow of member savings),
 - Decrease or eliminate certain operating expenses,
 - Or any combination of the above.
- If liquidity is not sufficient, additional savings should be mobilized, the ICF maturities can be shortened on new ICFs granted, the line of credit may be accessed, other cash outflows may be reduced, etc.

	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12months	> 1 year	Non Sensitive or No Maturity	Totals
LIABILITIES AND CAPITAL ACCORDING TO REPRICEABILITY								
External Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Core Liquid Share Savings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Core Liquid Share Savings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Term Share Savings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
_____	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
_____	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
							Non Sensitive or	
	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	> 1 year	No Maturity	Totals
LIABILITIES AND CAPITAL								
Other types of Share accounts:								
Membership Shares	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subordinated Shares	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
_____	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
_____	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Statutory Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Retained Earnings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Contingency Reserve (maturity related to purpose)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Year to Date Net Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants and Donations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total for Liabilities and Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The difference or GAP (Assets - Liabilities and Capital)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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*(Assets/Liabilities)	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent
**The GAP ratio The difference/Total Assets	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent	0per cent

* The goal for the assets/liabilities ratio is between 80 per cent and 120 per cent. Between 80 per cent and 120 per cent indicates that there are no material problems with liquidity or interest rate risk. 100 per cent is considered a perfect match.

**The goal for the GAP ratio is between +10 per cent and -10 per cent. This percentage range indicates that there are no problems with liquidity or interest rate risk. If the ratios in the timeframes are outside the acceptable range a change in interest could affect indicates the profitability of the IIFC.

Chapter Seven

Capitalization and Capital Adequacy Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the guidelines for the Islamic Investment and Finance Cooperative (IIFC) on maintenance of the capital adequacy and also determine the methods of capital accumulation ensuring institutional safety and soundness and stable assets growth.

This policy sets the authorities, standards and norms on the capital adequacy maintenance in compliance with the letter and intent of all applicable laws and regulations of the [country name] and the IIFC's by-laws and internal policies.

The IIFC's capital is made up of reserve and equity capital. The reserve (risk) capital is made up of undivided earnings or the aggregated amount of surplus generated through IIFC's activity, regulatory reserves, special reserves, donations, charity and grants. The IIFC's equity capital includes all of the previously mentioned accounts, member ownership shares and subordinated shares of other investors (if any).

The stronger the overall capital position, the easier it is for the IIFC to deal with future uncertainties such as asset losses and adverse economic cycles.

Capital accounts exist to:

- Provide a base for future growth;
- Enable the IIFC to meet competitive pressures as they arise;
- Provide protection against operating losses; and
- Ensure the IIFC remains a going concern.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of the members' needs, local market competition, daily operations and applicable legislative requirements.

IMPORTANCE OF CAPITAL

The importance of adequate capital cannot be emphasized enough. Capital ensures the long-term stability and prosperity of the institution and allows it to fulfill its obligations to the members in the case of liquidation. The more capital the IIFC has the safer an institution it is for its members. The stronger the overall capital position, the better the IIFC is able to deal with future uncertainties such as asset losses and adverse economic changes. The IIFC's capital has four purposes:

- **Preserve the Value of Member Shares and Savings** – With little capital the member deposits are at risk. If capital were not sufficient to absorb losses then upon liquidation of the IIFC the members would not receive 100per cent of their shares and savings. Therefore the more capital accumulated the safer the member deposits.
- **Absorb Losses** – The reserve fund, which is part of reserve capital, is established to absorb unforeseen losses other than ICF losses. All ICF losses are written off to the provision for ICF loss account (contra - asset).
- **Improve Earnings** – The more capital the IIFC has, the more profitable it will be. The reserve capital has no dividend cost; therefore it has a very powerful effect on the IIFC's capacity to generate profit and additional capital. Reserve capital funds

disbursed to members have a spread of 100per cent between ICF yield and cost of funds. The return is much less when lending member shares and savings. Competitive dividends must be paid to attract member funds. Dividends paid reduce the spread between cost of funds and ICF yield.

- **Finance Non-Earning Assets** – As stated above the reserve capital has no explicit financial cost. Therefore 100per cent of non-earning assets can be financed by reserve capital and no cost liabilities. By using zero cost capital and liabilities to finance non-earning assets the earnings are not unduly affected.
- **Meet Competitive Pressures in the Future** – If the IIFC is to remain competitive in a changing financial market place it is important to be able to finance changes in operations that will provide adequate member services. Those changes can be financed out of the reserve capital and in this case will not negatively affect the current year earnings and financial position of the IIFC.

RESERVE CAPITAL

Undivided Earnings represents accumulated undistributed net profit from past accounting periods and undistributed losses represents any losses after all expenses, provisions, share dividends, and any special fund reserves have been properly funded.

Regulatory reserves (Reserve Fund- Statutory Fund) is an account that is established to offset losses other than ICF losses that have been provided for in the provision for ICF loss account (contra-asset). The regulatory reserve is increased annually out of the undivided earnings at the rate approved by the general meeting of the IIFC's members. These funds can be withdrawn only upon liquidation of the IIFC.

Special reserves are any reserve accounts established by the IIFC to provide for future material expenses such as fixed asset purchases, educational seminars, official and employee travel, contingencies, etc. These reserves would be established after approval by the annual general meeting.

Reserve capital also includes charity, donations and grants, which represent funds or assets of value received from others in which no stipulations for their use have been placed.

OWNERSHIP SHARES

To be a member of the IIFC each individual must pay an ownership share contribution to the share capital of the IIFC - that is the minimum permanent share capital (MPSC).

The IIFC establishes the minimum share amount for membership in the statutes. Member shares can be used for funding ICF demand.

SUBORDINATED INVESTMENTS

By means of special decisions of the BOD and pursuant to a cooperation agreement, the IIFC can accept investments from the certain non-members, ie international or national non-government organizations duly registered for and operating with a sole purpose to represent and support cooperatives providing financial services to their members.

These are funds placed in form of subordinated investments by the institutions to facilitate the implementation of the ICF development program of the IIFC. In addition to the member savings and shares these funds are used to fund the ICF demand.

MINIMUM CAPITAL REQUIREMENT

The minimum regulatory capital requirement is 8 per cent of assets. This capital adequacy ratio is calculated as follows:

$$(a + b) / (g - h - i - 80 \text{ per cent} * j) \times 100$$

Where:

- a) Non-redeemable shares);
- b) Capital reserves;
- c) Actual loss allowances;
- d) ICF delinquent from 31 to 90 days;
- e) ICF delinquent from 90 to 180 days;
- f) ICF delinquent above 180 days;
- g) Total assets;
- h) Cash;
- i) Current account;
- j) Deposits at other banks located in [country name].

CAPITAL ACCUMULATION PLAN

The IIFC BOD should have a plan for achieving and maintaining an adequate capital level. In the business plan the board should establish both short and long-term goals for the capital adequacy ratio. These goals should also be used to evaluate the effectiveness of management. Short-term goals are stated on a semiannual basis. Long-term goals are over 1 to 3 years time period. The board and CEO are responsible for ensuring that the annual capital adequacy level is addressed in the yearly operating budget and is achieved. The short and long term goal ratios can be formulated as follows:

Date	Goal Ratio	Example
September 30, 201X	_____per cent	not less than 5.00per cent
March 31, 201X	_____per cent	not less than 6.00per cent
September 30, 201X	_____per cent	not less than 7.00per cent
March 31, 201X	_____per cent	not less than 8.00
Long Term Goal	_____per cent	not less than 12.00per cent

Remember as the IIFC accumulates more capital (especially reserve capital) it will be easier to make a greater return and therefore retain additional funds in risk capital accounts. With increasing risk capital, the capital ratio will increase faster as long as losses are minimized and the increases in capital and assets are proportional.

The above stated minimum capital adequacy requirement of 8per cent is dependent on the size of the IIFC and the inherent risk posed by operations, the ICF portfolio and the economic situation. It is preferable to maintain much greater capital than the minimum capital requirement. Management, in determining the adequate capital position, should take into consideration:

- Size of the IIFC,
- Complexity of products and services offered,
- Types of ICFs offered and concentrations,

- Are there high-risk ICFs offered such as agricultural, business or unsecured ICFs?
- Does the IIFC have a concentration of one ICF purpose or type of collateral?
- Level of management expertise,
- Involvement of officials,
- Potential liquidity management problems,
- Are short-term fixed rate shares and savings funding long term ICFs?
- Operational risks present (interest rate risk, long-term assets, high-risk investments, etc.)
- Lack of adequate internal controls,
- Current and anticipated earnings capacity of the IIFC,
- Quality of the ICF and investment portfolios,
- Contingent liabilities,
- Compliance with regulatory requirements,
- Stability and diversity of the field of membership, and
- Concentration of ICFs and savings to only a few members or group of related members.

STRATEGY FOR CAPITAL ACCUMULATION

Adequate IIFC capital can be attained in one or more of a number of ways:

Management must ensure that IIFC gross income is sufficient to cover the provision for ICF losses, operating expenses, and member dividends with enough remaining to increase the capital accounts which is achieved by:

- Ensuring ICF mark-up (charges) rates are high enough.
- Offering ICF products that the membership desire. (With a larger ICF demand there is more return for the IIFC as long as quality ICFs is granted.)
- Investing liquid funds in investments with an adequate return.
- Maintaining IIFC expenses at a minimum.
- Maintaining IIFC losses at a minimum. The majority of IIFC losses are ICFs. Management should ensure that ICF underwriting is adequate to minimize ICF losses. Borrower creditworthiness must always be assessed to verify that the member has the ability to repay the ICF.
- Keeping borrowing from outside sources to a minimum.
- Paying no more than local market rates on member savings and share accounts.
- Controlling asset growth. If, for example, management has a very successful marketing campaign, and savings and assets are growing much faster than capital, then the ratio will be adversely affected. It is important that all growth is steady and in proportion to the other growth areas. Major growth areas are ICFs, savings, assets, capital and members.
- Offering products and services that the IIFC can afford to offer. Before offering a new product, management should analyze its cost and any effects it will have.
- Effectively marketing products and services and the benefits of IIFC membership.
- Discussing the importance of capital accumulation at the annual meetings so the members understand. If there is a feeling amongst the membership that the IIFC is

retaining funds that should be theirs then this will probably adversely affect capital growth.

- The importance of capital accumulation can never be stressed enough. If the IIFC does not have the ability to offer its members all of the services that they can obtain at other institutions then the IIFC will not grow and prosper in the future. The IIFC was established to serve its members, without adequate capital this is not possible.

ANALYSIS OF IIFC CAPITAL

On a quarterly basis the IIFC CEO shall prepare and the Board of supervisors and the BOD shall perform a trend analysis of the following ratios, which address the IIFC share savings:

Ratio	Formula	Norm/Goal
Business plan target on capital achievement	$(\text{Capital for current month} / \text{Business plan capital target for current month}) * 100 \text{ per cent}$	>100 per cent
Growth of Capital (Non-redeemable Shares and Capital Reserves)	$(\text{Capital for current month} / \text{Capital for previous month-1}) * 100 \text{ per cent}$	Positive
Level of Adjusted Capital	$(\text{Non-redeemable shares} + \text{Capital Reserves} + \text{Actual Loss Allowances} - \text{Required Loss Allowances}) / (\text{Total assets} - \text{Cash} - \text{Current account} - 80 \text{ per cent} * \text{Deposits at other banks located in Afghanistan}) * 100 \text{ per cent}$	>8 per cent

Negative trends should be addressed immediately with the IIFC CEO and the BOD.

Chapter Eight

Accounting

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the standards and requirements for the Islamic Investment and Finance Cooperative (IIFC) on establishing effective accounting systems, accounting of the IIFC's transactions and maintenance of accounting records.

The purpose of an accounting system is to provide the IIFC's management with complete and accurate financial information to enable it to operate the IIFC in a sound and effective manner. Comprehensive and accurate financial information is essential so that IIFC's management can make sound decisions concerning the operation of the IIFC. Financial information provided to management is summarized in the IIFC's financial statements, which are intended to present fairly the financial position of the IIFC at a given date, and the results of its operations for a given accounting period. The financial information so presented must be supported by accounting records maintained in conformance with principles and standards designed to provide full and fair disclosure of all material information relating to the IIFC's operations. The financial statements should be used by management to provide information and data to members, elected officials, creditors, the regulatory agencies and others having a valid interest. Therefore it is essential that the records are accurate, current and show the true financial condition of the IIFC. Prompt and accurate preparation of reports will aid the IIFC in achieving its objectives and fulfilling the purposes for which it was formed.

The IIFC should maintain its accounting records on a conservative basis. It should make accurate and reasonable provisions to the accounts for potential losses on assets and for the settlement of liabilities. It should not materially overstate nor understate its assets, liabilities, revenues, or expenses.

Accounting transactions should be recorded on a timely basis so that all information applicable to each accounting period is captured in the records. To properly recognize in accounting records and financial reports the reasonable value of assets, liabilities and capital, the IIFC should make provisions for estimated losses in the collection or conversion of ICFs and other assets by charges against expenses. Differences between the actual and estimated amounts should be absorbed in the operations of the subsequent accounting period.

Accounting effectiveness is enhanced with adequate internal controls. Accounting control is concerned with the day to day functioning of the IIFC office including:

- Proper methods for handling members' transactions;
- Accurately recording transactions on the books and records;
- Proper receipt and disbursement of funds; and
- Preparation of financial statements which reflect the current financial position.

A properly designed accounting system achieves internal checks. It provides the IIFC's BOD with data about the actual operations and indicates whether or not the IIFC is being managed in accordance with the procedures and policies established by the BOD. The internal control system must include:

- An organization plan to provide, to the extent feasible, segregation of duties so that different employees handle the day to day operational and accounting functions. No one employee should be able to perform any of the IIFC's transactions from the beginning of the transaction to its completion.

- A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, income and expenses.
- Employment of personnel capable of performing their duties and responsibilities.
- Effective and timely audits of the IIFC records and accounts by the Supervisory Committee including verification of members' accounts, with assistance provided by the independent external auditor.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of daily operations and applicable legislative requirements.

CHART OF ACCOUNTS

The IIFC's accounting system and the supporting Chart of Accounts must facilitate preparation of the reports required for effective management and supervision. The IIFC should, before approving it for use, ensure the Chart of Accounts is structured in such a way as to support the maintenance of detailed accounting records of all operations of the IIFC and to best facilitate the IIFC's compliance with all internal and external reporting requirements. The IIFC should ensure that the approved Chart of Accounts is followed in all cases. The Chart of Accounts includes all general ledger accounts and following each general account are more specific account numbers and names. The IIFC management is encouraged to use the specific accounts listed in the Chart of Accounts to provide more detailed accounting information. Detailed accounting information is needed to complete regulatory reports and to provide IIFC daily management and officials with the information and data needed to enhance decision making.

ACCURATE AND CURRENT RECORDS ESSENTIAL PURPOSE OF RECORDS

The transactions of the IIFC are recorded in its records, which serve as a source of information needed by the officials and management to properly manage the IIFC. The accounting records also serve as the basis for reports to the members and interested third parties. Therefore, it is essential that the records be accurate, current, and that they show the true financial condition of the IIFC. Prompt preparation of reports will aid the IIFC in achieving its objectives and fulfilling the purposes for which it was formed.

BASIC ACCOUNTING RECORDS

Bookkeeping may be defined as the systematic recording of the financial transactions of the IIFC in a suitable form. To accomplish this, a well-defined system of accounts is necessary.

A. Types Of Accounts

The "Asset Accounts" record what the IIFC owns. These include cash, ICFs, investments, fixed assets, etc. These accounts, as well as the expense accounts, normally have debit balances. The "Liability Accounts" record what the IIFC owes and the "Capital (equity) Accounts" reflect the member's ownership interests. Together these accounts include advances payable, members' shares and savings, undivided earnings and reserves. The "Liability Accounts" and "Equity Accounts" as well as the income accounts normally have credit balances.

B. Double-Entry System

The IIFC should use a double entry accounting system. In this system each transaction results in at least two entries: a debit (or entry on the left side of an account ledger) and a credit (or entry on the right side of an account ledger). If the transaction requires several debits and credits, the total of the debits and the total of the credits must be the same. In other words, for every debit entry there must be an offsetting credit entry and vice versa. Following this rule and determining that the total debits equal the total credits can keep the records in balance. The IIFC should record financial transactions as accounting entries consisting of debits and credits. Every transaction affects at least two accounts. Accounting principles assign each type of account a normal debit or credit balance. The normal balance coincides with what is done to increase the balance in the account. For example, asset accounts are increased with debits; therefore, the normal balance in an asset account is a debit. Debit refers to the left side of an account and credit refers to the right side. Calculate the account balance from the totals of the debit and credit sides of an account and subtract the smaller sum from the larger; and the difference is called the balance of the account. Debits and credits affect asset and expense accounts in one way and liability, equity, and revenue accounts in the opposite way. Following this rule and determining that the total debits equal the total credits can keep the records kept in balance.

Important accounting rules include:

- Assets are debit accounts, although at times such an account may have a credit balance,
- Liabilities are credit accounts, although they, too, could at times have a debit balance,
- Capital accounts, including member shares are credit balance accounts. If the IIFC has an overall debit balance for capital the IIFC is insolvent,
- Income accounts have credit balances, and
- Expenses have debit balances.
- A general rule for debits and credits is – Debits represent an increase of an asset, a reduction of a liability or capital account, or the payment of an expense. A credit represents a reduction of an asset, increase of a liability or capital account, or receipt of income.
- Whether to debit or credit an account can be determined by these guidelines:
 - To increase a debit account, it must be debited,
 - To increase a credit account, it must be credited,
 - To decrease a debit account, it must be credited, and
 - To decrease a credit account, it must be debited.
- In preparing the accounting entries, the Accountant must decide what accounts are to be debited and credited. A number of questions must be answered:
 - What accounts from the Chart of Accounts will be effected by this transaction, both the account numbers and the names?
 - Do the accounts normally have a debit or credit balance?
 - Is the account balance to be increased or decreased?

If debit and credits do not balance at the end of the day, the problem or error needs to be located before the opening of the IIFC on the next business day. The Accountant must go back through the day's transactions to find the error. Daily balancing of the records reduces the time it takes to locate recordkeeping errors. The first step in locating the differences between the debits and credits is to

determine the actual difference. Just knowing the actual difference may be helpful in locating the error. If no clue is forthcoming, then it will be necessary to retrace every entry. When trying to locate an error some of the mistakes that may have occurred include:

- A transaction may not have been completed,
- Addition and subtraction errors may be involved,
- A transposition of numbers may have occurred,
- The debit and credit entries may have been incorrectly posted as such, and
- The figures on the cash vouchers and/or journal vouchers could have been misread.
- Agreement between the debits and credits is no guarantee that errors have not been made. It just means that the debits and credits are in balance. The following types of errors may go undetected, even if the debits and credits agree:
 - Debits and credits may have been posted to the wrong accounts,
 - A transaction may have been omitted,
 - A transaction may have been posted twice, and most rarely
 - Identical errors may be involved or an error that has a compensating error to offset it.

BASIC CONCEPTS AND GENERAL PRINCIPLES

The basic concepts and general principles of the detailed accounting principles and standards for the IIFC are:

SEPARATE ENTERPRISE

The IIFC is a separate corporate entity requiring the maintenance of comprehensive accounting records and financial reporting practices to provide meaningful information to members, staff, the BOD, the Supervisory Committee, the regulators, and interested third parties.

GOING CONCERN CONCEPT

The IIFC should normally maintain its accounts as a "going concern" on the basis that its operations will continue indefinitely. Therefore, assets and liabilities should represent the value to the IIFC as a "going concern" and should not present liquidation values. Whenever unusual circumstances indicate a limited life for the IIFC, e.g., if the IIFC liquidates, the "going concern" concept no longer applies. As a result, a statement of realistic assets and liabilities and appropriate revenues and expenses may require adjustments. These adjustments could include:

- Re-evaluation of the ICF portfolio to recognize discounts on sales and collection of ICFs,
- Evaluation of the realizable value of fixed assets in liquidation, and
- Re-evaluation of the carrying value of deferred charges and deferred advances, etc.

MONETARY BASIS FOR ACCOUNTING

State account values in terms of the amounts (US Dollars) involved at the time transactions occur. Recording each transaction in terms of one-currency units provides the best feasible indicator of its relative impact on the overall operations of the IIFC. It also permits identification of the amount of assets, liabilities, equity, income, or expenses represented by the transaction.

CONSISTENCY IN ACCOUNTING FROM PERIOD TO PERIOD

Follow consistent accounting practices from one accounting period to the next. Should a material change in accounting treatment occur, disclose the facts on IIFC financial statements. Include the effect upon the balance sheet and the changes in net income for the period. For example, if the IIFC converts to the full accrual system of accounting because assets reach a certain level, it should make a complete conversion at one time and report the conversion on the current period financial statements.

TIMELY RECOGNITION IN ACCOUNTING RECORDS

Record accounting transactions in a timely manner so all material information applicable to each accounting period shows in the records. Provide for estimated losses to be sustained in the collection or conversion of ICFs, and for other assets via charges against current expenses, in order to properly recognize the reasonable value of assets, liabilities, and capital in accounting records and financial reports. Estimate amounts for accruing income or expenses if actual amounts are not known and cannot be determined readily. Absorb differences between the actual and estimated amounts in the operations of the subsequent accounting period.

MATERIALITY

Recognize material facts relating to the IIFC's financial activity in the accounts and report them in financial statements. International Accounting Principles provide that a statement, fact, or item is material if its omission or misstatement could influence the economic decisions of relevant users on the basis of the financial statements. The accumulation of many small items, each of which in itself would not be "material", would be "material" if the overall effect would tend to influence the judgment and conduct of a reasonable person.

CONSERVATIVE ACCOUNTING

Maintain accounting records on a conservative basis. Make reasonable provisions in the accounts for potential losses on assets and for the settlement of liabilities. Do not materially overstate nor understate its assets, liabilities, revenues or expenses.

ACCOUNTING AND DIVIDEND PERIODS

The accounting period is the period selected by the IIFC to close its books. The IIFC must close its books at least annually at the end of the fiscal year.

FISCAL YEAR

The fiscal year of the IIFC should track the calendar year beginning on [start of the fiscal year in the given country] and ending on [last date of the fiscal year in the given country]. IIFC will submit a formal request to the relevant governmental department if required to get the accounting period approved.

BRIEF OUTLINE OF THE PRESCRIBED ACCOUNTING SYSTEM

The accounting records of IIFC should be maintained on the accrual basis. Strict compliance with the accrual basis of accounting is recommended for IIFC after its assets reach US\$ 20,000 or more at the end of the accounting period.

ACCRUAL BASIS

The accrual basis of accounting provides the most complete, conservative and informative record of the financial activities of the IIFC. Accrual accounting refers to the method under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. For example, each day of the month the IIFC earns mark-up on all ICFs and investments outstanding. However, the members normally make monthly payments, on the 15th of the month. The IIFC using accrual based accounting, would accrue for the 15 days of the month that the IIFC had earned the mark-up but had not been paid for because the member only pays once a month.

International Accounting Standards (IAS) requires the use of accrual accounting. IAS are used in businesses throughout the world and consist of the financial accounting and reporting assumptions, standards, and practices that a company must use in preparing external financial statements.

THE BASIC CREDIT UNION ACCOUNTING SYSTEM DESCRIBED

For IIFC the majority of entries originate with the receipt or disbursement of cash. Other entries are relatively few in number and consist generally of adjustments or transfers between accounts, establishment and maintenance of an allowance for loan losses, write-offs of bad loans, and recording depreciation of tangible fixed assets. In addition, following the accrual basis of accounting IIFC should make entries to record accrued income and expenses.

Records of Original Entry and Record of Final Entry

A bookkeeping system can be broken down into two distinct parts: Records of Original Entry (the Journal and Cash Record) and Records of Final Entry (the General Ledger). In addition, the Cash Voucher or its equivalent and the Journal Voucher or its equivalents serve as memorandum records of the original transactions and the sources of entries in the Journal and Cash Record.

The Records of Original Entry

The Records of Original Entry are diaries of the transactions as they occur. The Journal and Cash Record is the main record used for this purpose. Each day's cash receipts, disbursements and other transactions are entered in the Journal and Cash Record in chronological sequence. Thus, a running history of each day's transactions is kept and may be summarized as needed. At the end of a given period, usually the month end, the total of all transactions pertaining to each account can be obtained by totaling the debit and credit columns of the Journal and Cash Record. The accuracy of the entries can be proved in part by balancing the debit columns against the credit columns.

The Record of Final Entry

The Record of Final Entry is the General Ledger. This record serves as a means of summarizing the entries in a form that will enable the Accountant to prepare reports on the results of operations to date. Entries in the General Ledger consist of posting (simply transferring) the debits and credits

(either individually or in total at the end of the month) for each account in the Journal and Cash Record to the corresponding account in the General Ledger and computing the net balance for each account. The result obtained shows the current balances of the credit union's accounts and the results of operations for the period.

If the General Ledger account is a debit account, it must be remembered that the debit figure from the JCR must be added to the last monthly total on the ledger page and the credit figure must be subtracted in order to obtain the new General Ledger balance. Conversely, if the General Ledger account is a credit account, the debit figure from the JCR must be subtracted and the credit figure must be added to obtain the new credit balance. The result obtained shows the current balances of the IIFC's accounts and the results of operations for the period.

In order to support detailed transactions in the General Ledger account and provide for the account reconciliation, it is necessary to provide detailed information about this account with a record known as a Subsidiary Ledger. In this situation the accounts in the General Ledger are control accounts only, with detail supporting these control accounts carried in the subsidiary ledgers. Subsidiary records are balanced with related control accounts on a monthly basis and the reconciliation, or other proof of balancing, is retained. The subsidiary ledgers are imperative for all accounts with a lot of activity or for accounts where more than one item is being accounted for. A subsidiary ledger has the following advantages:

- It isolates for the individual member the transactions that affect their account only, all on a single ledger. Not only will the member benefit from having a subsidiary ledger, but so also will customers or creditors who do business with the IIFC.
- It eliminates from the General Ledger a great amount of detail relating to assets, liabilities and capital accounts.
- It permits easier location of errors by grouping accounts and maintaining a control on these groups.
- It aids internal control by separating the different groups of accounts and assigning responsibility for their control and maintenance.

For example, in the general ledger account for furniture depreciation all of the depreciation amounts are summarized as one end of month amount. Subsidiary ledgers are necessary for each piece of office furniture because the IIFC is depreciating all the office furniture for various lengths of time and for different amounts. A subsidiary ledger is not necessary for a general ledger account that is for one item, such as one of the IIFC investments. The subsidiary for this account would be the statement received from the institution in which the investment was made stating the current investment balance and value. The Individual Share, Savings and ICF Ledgers are also examples of subsidiary records, which show the detailed savings and ICF transactions of each member. The Savings and ICF accounts in the General Ledger reflect the total transactions with all members. These General Ledger accounts are the Control Accounts since they act as a control or check over the numerous postings to the individual or subsidiary ledgers. Subsidiary records are balanced with related control accounts on a monthly basis and the reconciliation, or other proof of balancing, is retained.

GENERAL LEDGER, SUB LEDGERS, AND AC RECONCILIATIONS

GENERAL LEDGER

The general ledger is a comprehensive record of individual accounts on the chart of accounts. The chart of accounts is a listing of general ledger account numbers and account names. The general ledger accounts contain entries pertaining to a specific asset, liability, capital, income, or expense. Accounting computer systems will print various levels of detail for general ledger reports. Subsidiary ledgers and account reconciliations support the general ledger.

SUBSIDIARY LEDGERS

Subsidiary ledgers store the details of certain general ledger accounts. Subsidiary ledgers support general ledger accounts. Use of subsidiary ledgers may reduce the number of general ledger accounts. The fewer the number of accounts, the easier it is to avoid errors and find them when they occur. Subsidiary ledgers are often set up for ICFs, cash, investments, prepaid expenses, fixed assets, shares and savings, capital, income, and operating expenses. The better the system of organizing account details in subsidiary ledgers, the easier it is to avoid errors and find them when they occur.

ACCOUNT RECONCILIATIONS

Account reconciliations prove account balances on a regular basis. Accounting staff will typically prepare these at least monthly. Accounts such as cash and bank accounts require reconciliation weekly or daily.

SUMMARY OF ACCOUNTING CYCLE

A review of the accounting cycle shows that the data flows in a logical sequence. Completion of the accounting cycle steps enables the Accountant to combine and summarize all of the IIFC transactions in two concise statements, which all IIFC must produce at least monthly – the Statement of Financial Condition or Balance Sheet and the Statement of Income and Expenses. The cycle is as follows:

- Member comes to pay (deposit) or withdraw funds to/from the IIFC. This is the same whether a manual or computerized system is being used.
- Complete an official receipt (OR) for cash received or disbursed and journal voucher for a non-cash item (transaction). Ensure that the correct accounts are being debited and credited and that the entry is in balance (the debits equal the credits). For the computerized system the computer-generated receipt is the evidence used for member deposits and withdrawals.
- Ensure that all entries at the end of the day balance and that the amount of the cash received (collected) is equal to the bank deposit. This is the same whether a manual or computerized system is being used.
- Perform all non-cash item entries as necessary, such as corrections, closing entries, provisions for ICF losses, charge offs, equipment and building depreciation, etc. This is the same whether a manual or computerized system is being used.
- Record all of the information from the ORs and Journal Vouchers after the days' work in the Journal and Cash Record. This should always be done on a daily basis to reduce the possibility of making an error and to reduce the time it takes to find and correct the error. This is performed automatically with computerized systems.

- At the end of the month, after ensuring that all is in balance, summarize and transfer all of the information in the JCR to the General Ledger for each account. If the IIFC is computerized, this is usually performed by the computer with several keystrokes.
- Ensure that all subsidiary ledgers (bank reconcilements, individual member share, savings and ICF ledgers, investment statement balances) balance with the IIFC's general ledger balances. This is the same whether a manual or computerized system is used.
- Prepare the financial statements (the Statement of Financial Condition and the Statement of Income and Expenses). This is the same whether a manual or computerized system is being used.
- Close the income and expense accounts at the end of the accounting period to the undivided earnings accounts. This is performed by the computer with several keystrokes or commands.
- Prepare the final or "after closing" statements (in which the net income has been "closed" into the undivided earnings). This is the same whether a manual or computerized system is being used.

FINANCIAL STATEMENTS

The Statement of Financial Condition or Balance Sheet:

The balance sheet reports the IIFC's financial position at a point in time. The balance sheet is best thought of as "a snapshot of the IIFC's financial position". The balance sheet is normally prepared as of the last day of each month. The next day the balance sheet numbers are different because of member transactions, purchases of investments and office equipment, etc.

The total of the assets on the Balance Sheet should always equal the sum of the liabilities and capital accounts. This relationship is best expressed by the following equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

The balance sheet lists the assets, liabilities and capital of the IIFC and shows its financial condition. Assets are items of value that the IIFC owns. Typical IIFC assets include: cash and cash equivalents, investments, ICFs, accounts receivable, prepayments, fixed assets (building, furniture and equipment).

Liabilities represent amounts owed to persons or legal entities. Typical examples of such items would be member share savings, accounts and borrowings payable, taxes, dividends on member share savings payable and accrued expenses. The member savings and share account balances are accounted for at the actual value of the accounts. Capital is made up of the following accounts: member share investments, subordinated shares, undivided earnings, regulatory reserves and other required reserves, and net income or loss. The capital accounts represent the accumulated net income/losses from past IIFC operations. If the IIFC were liquidated, remaining capital would be divided up amongst the members after all IIFC liabilities or losses were provided for.

The Income and Expense Statement

The Income and Expense statement reflects the gross amount of income earned and the total amount of expenses incurred during the period and allows users to determine if the IIFC made a profit. If gross income is greater than the total amount of the expenses, the difference represents a net gain from operations during that particular period and is reflected as an increase in the undivided earnings and capital. If the expenses are greater than the income, a loss occurs and there is a decrease in undivided earnings or capital. The net gain or income after all expenses, dividends and

mark-up on liabilities and regulatory requirements have been met is available for members in the form of ownership share dividends.

At the end of the fiscal year all the income and expense accounts are “closed” or transferred to the net income or loss summary account. This debit or credit balance is then “closed” or transferred to the undivided earnings, which is a capital account. Closing accounts is necessary to reduce the income statement account balances to zero so that these accounts can be used to collect the revenue and expense transaction data for the following accounting period. Closing accounts does not occur with balance sheet accounts; they collect transaction data throughout the life of the IIFC, not just the accounting period. Three steps are necessary to close the income statement accounts and to transfer the resulting balance in the net income or income summary account to undivided earnings:

- All income statement accounts with credit balances are debited and the income summary account is credited in an amount equal to the total debits.
- All income statement accounts with debit balances are credited, and the income summary account is debited in an amount equal to the total credits.
- The balance in the income summary account is transferred to undivided earnings. If earnings activities result in net income, income summary is debited and undivided earnings are credited. On the other hand, if a net loss results, retained earnings are debited and income summary is credited. If the IIFC is automated this is performed by the computer with several keystrokes or commands.

PRINCIPLES EFFECTING THE RECORDING IN BS ITEMS

Full and fair disclosure is defined as the level of disclosure a reasonable person would provide to the IIFC’s members in order to fairly inform them of the financial condition and the results of operation of the IIFC.

The financial statements described above must provide full and fair disclosure of all assets, liabilities, and capital including a limited number of valuation accounts as may be necessary to present fairly the IIFC’s financial position. This also includes all income and expense accounts necessary to present fairly the results of the IIFC’s operations for the period covered by the report.

The principles and standards of accounting relating to assets of the IIFC using accrual based accounting are as follows:

- **Assets** are considered to be something of economic value that is used to satisfy the wants or needs of the members. Assets are normally recorded at their cost to the IIFC.
 - **Cash** (teller cash, vault cash, petty cash, and IIFC current accounts in banks) is recorded at the amount on hand at the IIFC as of the date of the financial statement. Cash on deposit or on hand should be recorded in separate accounts from other cash accounts. Each category of cash should be shown separately on financial reports, other than change funds or petty cash.
 - **Investments** (bank saving and term accounts, other financial investments) are recorded at the cost of the investment to the IIFC. The values of investments should not be written up to the current market value. If there is a significant decline in the value of the investment, that decline should be recognized if the IIFC will receive less at the investment maturity or the IIFC is going to sell the investment prior to maturity and will have to recognize the loss. If the IIFC is going to hold the investment to maturity and will receive

the purchase value of the investment then the IIFC does not need to recognize the loss. If the IIFC is to recognize the loss it is done so by using the Allowance for Investment Loss account, which is a contra asset. The account has a credit balance. This account reduces the value of the investments. The offsetting or debit entry is to an expense account “Provision for losses on investments” established for this purpose.

- **Islamic Compliant Financing** Outstanding should be recorded to reflect their unpaid balances as of the date of the financial statement.
- **Provision** for ICF Loss is to be maintained to represent all known and potential ICF losses. This is a contra asset account, which means that the account has a credit balance instead of a debit balance as the other asset accounts have. The effect of this contra asset account is that it reduces the value of the ICFs outstanding. The norms and standards for funding the provision for ICF loss account are established in compliance with the regulative standards and requirements of the IIFC’s internal policy. The method used by the IIFC is as follows:
 - a. 35 per cent of the unpaid balance of ICF 31 to 90 days past due shall be included in the provision for ICF loss account to provide for potential losses
 - b. 50 per cent of the unpaid balance of ICF 91 to 180 days past due shall be included in the provision for ICF loss account to provide for potential losses
 - c. 100 per cent of the unpaid balance of ICF past due above 180 days shall be included in the provision for ICF loss account to provide for potential losses.

At the end of each month before the monthly financial statements are prepared the IIFC management has to determine that the provision for ICF loss account is adequate to meet the requirements. As for any other major expense item, the IIFC should budget an amount (part of the annual budget process) that will be expensed monthly through the provision for ICF loss account (expense account). This amount will be based on past history, a percentage of the outstanding ICF balance, current delinquency, the economic situation and policy requirements. If for some reason there is an unexpected large increase in the amount needed in the provision for ICF loss account, that amount is to be expensed immediately. A large adjustment may not be expensed over several months to reduce the impact on the IIFC’s income. The IIFC must always realize all ICF potential losses when they are identified. In order to provide full and fair disclosure, the provision for ICF losses account must always be adequate for all known and/or expected losses.

- **Accounts Receivable** represents anything that is owed to the IIFC by partners and third parties. They are to be recorded to reflect their unpaid balances. In case the receivables are not paid based on the contract or the probability of their repayment is minimal the IIFC should recognize loss on these accounts in order to present their true value. If the IIFC is to recognize the loss it is done so by using the Allowance for Accounts Receivable Loss account, which is a contra asset. The account has a credit balance. This account reduces the value of the receivables. The offsetting or debit entry is to an expense account “Provision for losses on accounts receivables” established for this purpose.
- **Accrued Return on Investments** earned but not received will be accrued and recorded as of each financial statement in the amount and terms based on

the investment contract. The debit entry will be to accrue return on investments (asset account) for the amount that was earned during the accounting period and the credit is to Income on Investments (income account) for the same amount. As the return is received the accrued return on investments (asset account) will be credited and Cash debited.

- **Accrued Return on Member ICFs** that has been earned but not yet received is recorded or debited as an asset in the Accrued Return on Member ICFs account (asset) and the corresponding credit is to Shared Profit on Member ICFs (income account). This accrual is necessary when member ICF payments do not correspond with the end of the accounting period. Commonly ICF payments are made once a month. As of the month end financial statement date, the IIFC has earned profit for a certain number of days (since the last ICF payment to the month end) but has yet to receive payment, so this amount is accrued for in the month end financial statement to present full account disclosure. ICF profit accrual should be discontinued for all ICFs that are more than 2 months delinquent. Mark-up payments received for these ICFs will be recognized only upon receipt of the ICF payment. The repayment of mark-up becomes more doubtful as the delinquency increases. If the IIFC has high delinquency level in the ICF portfolio it may choose to record all ICF profit (mark-up) on cash basis, as it actually received.
- **Advances** represent the amount given by the IIFC in advance to different parties as payment for future delivery of services and goods, against which the actual expense should be adjusted in future. The advances should be exchanged for delivery of goods and services or returned by the supplier (party). They are to be recorded to reflect their unpaid (unconfirmed by delivery of goods and services) balances. In case the services and goods are not delivered as agreed or contract is terminated the outstanding amount (fully or partially) should be returned (collected). If it cannot be returned within 6 months it should be fully expensed.
- **Prepaid Expenses** are costs of a material amount that affect subsequent accounting periods. These costs or expenses are amortized over the accounting periods, to which they are applicable. For example, if the IIFC had to pay rent for the whole year in a single payment during the 1st month of the year, then the Accountant would establish a prepaid expense account and expense 1/12th of the expense each month throughout the year until the prepaid account reached a zero balance. In this way the IIFC would not report a large expense during the 1st month of the year; the expense would be evenly distributed throughout the time period for which the expense was attributable. The IIFC can also amortize deferred organization costs over a period not extending beyond the year incurred and the two subsequent fiscal years.
- **Fixed Assets** should be recorded in accordance with the following principles:
 - a. The purchase of fixed assets should be recorded at cost. The cost of acquisition is the net purchase price of the asset plus all incidental costs necessary to put the asset in condition for use, such as freight, installation cost, etc. If property is exchanged for the acquired asset, then cost is recorded as the amount of cash paid plus the recorded amount of the asset surrendered. No gain, if any, should be

recognized on the transaction; the entire indicated loss on the exchange, if any, should be recognized. If property is acquired through exchange without cost, the fair market value should be used as the cost.

- b. The IIFC's BOD may establish an amount value limit – US\$ 300, under which fixed assets will be recorded as a current expense instead of established as a fixed asset and depreciated. Depreciation of IIFC fixed assets is the charge allocated to an accounting period under a system, which aims to distribute the cost of the fixed assets, less salvage value (if any) over the estimated useful life of the asset. Depreciation is an equal amount that is expensed each month; it reduces the value of the asset as the asset is being used by the IIFC. Depreciation is a contra account; it reduces the value of an IIFC fixed asset. It has a credit balance. The IIFC should maintain a depreciation record for each depreciable item. The management should use the straight-line method for the purpose of computing the monthly amounts of the depreciation to be charged.
 - c. To prevent fraud, assets should be depreciated to an established minimum or salvage value such as US\$ 1 so that they are not removed from the general ledger or the IIFC inventory. If the fixed assets were depreciated on the IIFC records to zero then they could be easily removed from the premises since there would no longer be a record of them.
 - d. A fixed asset is retired when it is fully depreciated. However IIFC management may decide to continue to use it in the operations of the IIFC and keep it on the balance sheet at the salvage value. When a fixed asset is broken or destroyed it should be fully depreciated and retired based on a written decision (directive) of the IIFC's management. In case the fixed asset value is material as the IIFC's management can apply administrative sanctions to the responsible staff.
- **Other assets** are all assets that do not fall in the above categories. They are to be recorded at cost.
 - **Assets Pledged.** The IIFC should disclose the nature and extent of IIFC's assets pledged to secure debts in the financial statements.
 - **Liability.** An essential characteristic of a LIABILITY is that the IIFC has a present obligation and the settlement of the obligation will cause an outflow of IIFC resources. Liabilities should be recorded at their actual amounts or, if the actual amounts are not known, they should be recorded based on reasonably accurate estimates.
 - **Member Share Savings** are accounted for at their actual amount deposited based on the deposits agreement (passbook) with the IIFC. The IIFC offers various types of member share savings at varying dividend rates and maturities depending on member needs and subject to rates, terms, and conditions as established by the IIFC's BOD. Share savings types offered include: pledged share savings, regular share savings, development share savings, and certificate share savings.
 - **Member share savings** that have a stated or declared dividend rate are to be accrued for in the Dividends Payable on Share Savings. The member must receive the stated or declared rate and amount. The dividends are accrued based on the stated or declared

dividend rate by debiting the Dividend Cost on Share Savings (expense account in Income Statement) and crediting Dividends Payable on Share Savings (liability account in the Balance Sheet). Dividends on share savings are to be accrued monthly or at the end of the shortest dividend period offered by the IIFC on any type of account in the terms specified in the deposit contract and conditions approved by the BOD.

- **Accounts Payable** consists of all bills that have been received and are due for payment but as of the date of the financial statement remain unpaid. They also include IIFC's accrued operational expenses that have not been paid yet. They should be recorded at actual cost based on the bills and contracts.
- **Deferred Revenue** consists of revenue received in advance, but applicable to subsequent accounting periods. The IIFC should record deferred revenue separately and amortize by crediting income account during subsequent periods as the revenue is earned based on the contractual terms.
- **External Credits Payable** are funds that the IIFC has borrowed. The amount recorded is the outstanding amount payable on the notes.
- **Other liabilities** are all other liabilities that do not fall in the above categories. They are to be recorded at cost.
- **Capital.** An essential characteristic of CAPITAL is that it represents the members' ownership interest and accounting difference between assets and liabilities. Rewrite?
- **Members Ownership Shares** are classified as capital on the IIFC's Statement of Financial Condition. Each member must have the minimum amount in ownership shares established by the IIFC's bylaws and internal policies to access all IIFC services. Shares are recorded at actual amount received from member or from capitalization of dividends. Shares can be paid a dividend only after operating expenses, dividends on share savings and capital adequacy requirements established by regulatory agencies and/or the IIFC's bylaws and internal policies have been made.
- **Subordinated Shares** are classified as capital on the IIFC's Statement of Financial Condition and represent amount of equity presented by the permanent donors. Subordinated shares are recorded at actual amount received from member or from capitalization of dividends. Subordinated shares can be paid a dividend based on the contractual arrangements with donors (investors).
- **Regulatory Reserves** are required by the regulatory agencies or the IIFC's bylaws and internal policies in order to ensure adequate and quality capitalization of the IIFC. IIFCs cannot distribute dividends on ownership shares until the regulatory reserves requirements are met. Regulatory reserves are increased from undivided earnings by debiting undivided earnings account. They are cumulative and can be decreased only if increase was caused by technical mistake or error.
- **Undivided Earnings** is the account in which all past net incomes and losses are accumulated. At the close of each accounting period, the income and expense accounts should be closed in the Net Income/(Loss) account, after which the balance of the Net Income/(Loss) should be transferred to Undivided Earnings. Other miscellaneous charges should be made to undivided earnings only for a correction of an error for material amounts that represent adjustments effecting prior accounting periods. Material errors in such financial statements could include arithmetic mistakes, the misuse or deletion of information, mistakes in the applications of accounting principles or procedures and improper interpretations of the accounting aspects of major transactions. Correction of an error should result in the restatement of the prior year's financial statement to disclose the correction of the error. The IIFC should not

treat normal recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process as prior-year adjustments. Normal recurring corrections include changes in estimated assets losses, accumulated depreciation on disposed assets, and estimated dividends. These changes are properly recorded as transactions affecting the current year in the appropriate income and expense accounts. The determination of net income for the period must include all items of profit and loss recognized during a period.

- **Net Income** is the difference between all income and expense items for the current accounting period.

PRINCIPLES AFFECTING THE RECORDING OF INCOME AND EXPENSES

- **All income**, expenses, gains and losses effecting each accounting period should be recorded through income and expense accounts. Income and expenses from regular IIFC operations should be segregated from any extraordinary income or expenses, which occurred during the period. For a detailed description of all the income and expense accounts see the document entitled “Chart of Accounts”.
- Income encompasses both revenues and gains. Revenue or income arises in the course of the ordinary activities of the IIFC and gains arise from non-operational or unusual occurrences. Revenue should be accrued for when earned but not yet received as of the date of the financial statement or dividend (payment) period. The entries are to the Accrued Revenue on ICFs or Investments (debit) and Shared Profit on Member ICFs or Income from Investments (credit). The IIFC Core-Banking System will calculate the amount to accrue. The IIFC should maintain supporting documentation for the accrual basis.
- Shared profit accruals should be discontinued on ICFs that are 2 months delinquent. Profit on ICFs more than 2 months delinquent should be accounted for only when payments are received. Fees and charges should be recorded as income when received. Income accounts normally have a credit balance.
- Expenses encompass losses as well as other expenses that arise in the course of IIFC operations. Expenses relate to current operations and should be paid and recorded promptly when due. If, however, at the end of the month there are invoices which are for past expenses that have yet to have been paid they should be recorded as current month expenses and accounts payable until paid. Significant amounts of expenses paid or accrued that are applicable to future periods should be recorded as prepaid or accrued expenses and amortized over the periods to which they are applicable.
- Fixed Assets, as discussed in the previous section, are depreciated monthly over the life of the asset through an expense account.
- Prepaid and Accrued Expenses are included in expenses monthly for amortization of the pre-pays and/or accrual of anticipated expenses for material expenses such as the rent, annual meeting, annual audit, etc.
- Cash Overage and Shortages arising in the processing of cash transactions should be recorded as debits or credits to this expense account daily as the cash differences occur. Adjustments to the cash over and short expense account are made whenever the error which caused the cash overage or shortage is determined and the proper account can be identified and debited, or credited.

Chapter Nine

Cash Operations

Policies and Procedures

POLICY INTRODUCTION

This policy sets the standards and requirements for the Islamic Investment and Finance Cooperative (IIFC) on the establishment, administration and monitoring of cash funds. Detailed cash handling policies and procedures are critical to the IIFC as it works with cash on a day-to-day basis. Cash handling involves the planning and control of cash management to efficiently meet day to day cash needs of the IIFC, investing temporary idle cash to earn revenue and safeguarding cash from potential fraud and theft.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of daily operations and applicable legislative requirements.

SCOPE AND RESPONSIBILITY

This policy shall be applicable to all offices, divisions and departments of the IIFC. The IIFC CEO and the Accountant shall be responsible for the administration of the accounting, monitoring compliance and auditing of cash funds. The BOD and Supervisory Committee shall check compliance with the following policy and procedures, and shall ensure that all accounting and reporting requirements are accomplished in an accurate and timely manner.

SAFEGUARDING CASH

Safeguarding cash from fraud and theft is critical for the IIFC. Cash is easy to conceal and transport and desired by everyone. Cash control is closely related to the accounting system. Free access to the accounting system makes it easy to conceal embezzlements. Therefore, careful control of cash receipts and payments is essential. The following safeguarding principles should be implemented and strictly followed:

SEGREGATION OF DUTIES

- The most important internal control for cash is to segregate the physical handling of a transaction from its recording and supervision.
- Duties of personnel should be segregated and clearly defined for purposes of check and balance. No single employee can handle a cash transaction from beginning to end. Two or more people should be involved in as many different cash handling procedures as possible.
- The cashier or any person holding cash should not be allowed to perform cash recording or reconciliation.

CONTROL OF UNUSED FORMS

- Official Receipts and Cash Disbursement Voucher must be pre-numbered and recorded in the Accountable Forms Register Book.

- The Accountant is responsible for safekeeping, controlling and checking the usage of Accountable Forms. Under no circumstances such cash disbursement voucher booklets will be made available to any unauthorized person/custodian.
- Booklet assigned to the cashier shall be marked issued in the Accountable Form Register Book, cashier will be required to acknowledge by signing adjacent to the booklet number in the register book.

SAFEKEEPING OF CASH

- The cashier is provided with a drawer with a lock to which he or she alone has access; and it should be locked up at all times. Whenever he or she is on leave or leaves the area for more than an hour the key will be left with the designated person appointed by the CEO.
- Cash retained on the premises overnight should be kept at minimal levels and should be placed in the vault after it has been reconciled at the end of day.
- The safe/vault that is used to keep cash overnight should be fireproof and have a system of at least dual access (two keys, codes, combinations). The combination and keys should be changed whenever the persons authorized for access are changed. There should be at least dual control on safe/vault that should be distributed as follows:
 - Access to vault room is assigned to the cashier and CEO. The first key or combination from the vault door should be with the cashier and the second key (combination) with the CEO.
 - The first safe (level) of the vault will be used for cash safekeeping. The first key (combination) of this safe (level) is assigned to the cashier and the second - to the Accountant.
 - The second safe (level) of the vault will be used for safekeeping of collateral and other important documents. The first key (combination) of this safe (level) is assigned to the Accountant and the second - to the CEO.
 - Cash collected during the day should, after the proper reconciliation and balancing with the general ledger, be deposited intact on the same banking day.
- The IIFC should change its cash safes immediately if the Accountant and Cashier are not sure about the proper functionality of their safes. The new safe keys MUST be kept ONLY with the Accountant and the Cashier: no copies should be provided to any third parties, IIFC employees or officials. This is required to ensure that only specific persons at the IIFC will be responsible for the keys.
- No personal cash belonging to the IIFC's staff or any other individuals should be kept in the cash drawers or safe/vault, except for the pledged collateral items.
- The IIFC should be extra careful in moving funds between the Bank and the IIFC. If the amount of funds is large, then the funds should be moved in several transfers, not one big transfer. The IIFC must try to use bank services

on cash transfer to the IIFC and back from IIFC to bank depending on amount of transfer and the costs associated to such transfers. The IIFC must pay its vendors via bank cheques whenever possible.

CASH RECONCILIATION

- On a daily basis the Accountant should conduct the cash count of the daily collection to ensure that the actual cash and the cash reflected in the daily cash collection report and the general ledger are reconciled.
- At least once a month (or the end of the month) the Accountant shall conduct general cash count to the cashier's petty cash fund, cash kept in the vault including collection for the day in order to reconcile actual cash counted with the cash account balance in the balance sheet.
- Any difference in the actual cash will be dealt immediately and report to the CEO and BOD. Any case of cash deficit should be investigated thoroughly. If a cashier is found to be responsible for the deficit, then he or she should be penalized and required to replenish the deficit cash amount. In the case of a significant deficit, the cashier should be dismissed from his or her position and most likely from the IIFC and the lost funds should be collected from the cashier. Any amount of cash overage will be booked to Accounts Payable and if there are no justifiable claims within six (6) months after it occurred, the amount will be booked to Unclaimed Balances for the period of (2) years. Thereafter, US\$ 100 will be booked as income every month until the whole amount is consumed.
- The Supervisory Committee should routinely, but not less than once a quarter, perform unannounced (surprise) cash counts. The surprise cash count should be done by employees or elected officials that are not usually involved in the daily cash reconciliation.
- To determine the accuracy of the cash in bank account balance, a reconciliation of the book and bank balances shall be done monthly by the Accountant and to be reviewed by the supervisory committee.
- The results of the daily, monthly and surprise cash counts should be documented and signed (confirmed) by the responsible employees and/or elected officials.

CASH RECORDKEEPING

- All cash disbursements should be properly authorized (at least two persons should authorize any disbursement) and supported by documents (contracts, invoices and etc.).
- All cash receipts should be pre-numbered, properly controlled, and contain adequate payment details and signatures of the authorized persons.
- All receipts and checks should be entered into the accounting system in the numerical sequence.
- All voided checks and receipts should be marked as such.
- There should not be any pre-signed checks and vouchers.

- All receipts should be prepared only when supporting documentation is present and after such documentation is verified.
- All cash receipts should be balanced with the general ledger on the daily basis.

OTHER CONTROL MEASURES

- All members/borrowers should be encouraged to obtain receipts for all cash transactions.
- Members should present their Passbook each time they make transactions with the IIFC. No passbook: no transactions.
- In order to prevent theft and fraud at IIFC, each individual staff member working for IIFC MUST provide a guarantee letter of a senior ranking government official or a well-known trader or a well – respected person in the community. The guarantors should agree to guarantee the character of the staff members and make them available in case they run-away stealing funds or other valuables from IIFC or its members. These letters can be in any of the national languages of [the country name].

ACCESS TO SAFE AND VAULT

Part of the internal control requirements for the IIFC is the use of certification of cash safe combination and keys. The certification should be done as follows:

- Certification (see Appendix #1) must be signed by the IIFC's primary and alternate holders of cash safe combination and keys.
- Each holder must submit the same in a sealed and signed envelope to the Board's Chairman and and/or their respective regional TAs including changes if there are any.
- Change of combination is recommended to be done every ninety (90) days or anytime when required due to security reasons and whenever there is a handover of access.
- Written hand-over of keys and combination should be duly signed by the staff/s concerned.
- In case of loss of money due to negligence, staff/s concerned will be obliged to replenish the loss amount and should be also punished through disciplinary actions, suspension or termination.
- In handling the cash safe/vault, it is always compulsory to have dual access level so none can access the vault alone. The following must be strictly followed:
- Access to vault room is assigned to the cashier and CEO. The first key or combination from the vault door should be with the cashier and the second key (combination) with the CEO.
- The first safe (level) of the vault will be used for cash safekeeping. The first key (combination) of this safe (level) is assigned to the cashier and the second - to the Accountant.

- The second safe (level) of the vault will be used for safekeeping of collateral and other important documents. The first key (combination) of this safe (level) is assigned to the Accountant and the second - to the CEO.
- In the absence of any of above mentioned persons assigned with access to the vault their access may be devolved to other staff members not usually involved in cash handling (ICF officer).
- A 3rd responsible person (any staff) should always be present when the vault is opened by the first two.
- There should always be two (2) staff and one (1) witness present when opening and closing the vault.
- IIFC should change its cash safes immediately, if the Accountant and Cashier are not sure about the proper functionality of their Safes. The new safe keys MUST be kept ONLY by the Accountant and the Cashier; no copies should be provided to any third parties, IIFC employees or officials. This is required to ensure that only specific persons at the IIFC will be responsible for the keys.
- Every time the responsible persons open the vault it should be logged in the special journal (book) for audit purposes. Those who opened and closed should sign in the logbook for confirmation. Below is a sample format of the logbook:

<u>Date</u>	<u>Time</u>	<u>Name of Staff</u>	<u>Activity</u>	<u>Signature (open & close of vault only)</u>
8-8-10				
8:00	Staff 1 [name]		time in	
8:15	Staff 2 &3 [name]		open vault	
8:50	Staff 4 [name]		field work	
4:20	Staff 5 & 6 [name]		close vault	

SETTING-UP THE CASH LIMIT

- **Setting-up of Cashier/Teller's Drawer and Cash Limit:**

Depending on the volume of over-the-counter transactions, the IIFC can set-up a cash box for tellers/cashiers containing a reasonable amount of cash of different denomination to avoid frequent access to the cash safe/vault. For each transfer of cash from/to the vault to/from the teller's box the cash transfer slip should be prepared and signed by the Accountant and the respective teller. The current cash limit for individual teller's cash box is set at the level of US\$ _____.

The cashier/teller should be provided by a drawer with a lock to which he or she alone has access and should be locked at all times. Whenever s/he is on leave or leaves her/his area for more than an hour, the key should be left with the designated person appointed by the CEO. It is the responsibility of the teller/cashier to secure his or her cash drawer and the cash box and minimize cash in the drawer by regularly transferring excess amounts to the vault for security. No amount of cash should be used for personal transactions.

- **Cash-In-Vault Limit:**

To maintain the level of security and safekeeping of cash in the IIFC, only minimal levels of cash should be retained on the premises overnight and it should be placed in the safe vault after it is reconciled at the end of day.

- The current daily limit of cash in vault (cash that can be kept in the IIFC's vault overnight) is US\$ _____.
- Any excess thereof should be deposited to the IIFC's bank depository account, covered by a bank deposit slip, signed by the cashier and Accountant/CEO and properly booked in the accounting system on the same day. A copy of the deposit slip should be securely kept and attached with the monthly bank reconciliation.
- No personal cash that belongs to any of the IIFC staff or any other individuals can be kept in the cash drawers or safe/vault.

- **Setting-up and Handling of Petty Cash:**

The IIFC can set-up a petty cash fund with a sufficient amount to cover minor expenses for the daily operations of the IIFC like transportation cost of staffs, office supplies, photo-copying charges, incidental meals and other small expenses.

The current petty cash limit is US\$ _____.

All expenses should be covered by receipts or petty cash vouchers (if receipts are not available) duly signed by the responsible staff/person paid and approved by the Accountant and the CEO. Cash balancing against receipts or vouchers should be done by the cashier and verified by the Accountant on a daily basis before putting the petty cash box inside the cash safe at the end of the day.

As soon as the petty cash fund is depleted, a summary of expenses (report) should be prepared by the cashier/Accountant and approved by the CEO before petty cash replenishment can be done.

- **Setting-up of Bait Money:**

The IIFC may set-up bait money in a considerable amount (preferably US\$ 1,000) which may help trace or identify culprit/s in cases of theft, hold-up or robbery. This should be part of the teller/cashier's box which is taken out from the vault at the start of the day and returned at the end of the day. A schedule of bait money containing the cash denominations and serial numbers must be prepared by the cashier, checked by the Accountant and noted by the CEO. This list will be placed separately in a sealed envelope preferably inside the cash vault. Below is a sample format of the schedule and may be changed every ninety (90) days:

Islamic Investment and Finance Cooperative

Date: _____

SCHEDULE OF BAIT MONEY

Denomination Serial Number	No. of Pieces	Amount
1,000		
500		
100		
50		
20		
10		
TOTAL		

Prepared by:

Teller/Cashier

Checked by:

Accountant

Noted by:

CEO

CASH COUNT/RECONCILIATION

- **Cash Counting and Proof sheet:**

Two (2) staff, preferably cashier and Accountant (or CEO) are required to do cash count daily and the cash count sheet should be duly signed and certified by both at the end of the day. Any disparity of amount in the daily cash collection report, the general ledger against the actual cash

counted should be investigated and reported within the day to the CEO. Any unreported incident is subject to disciplinary action. The sample format of the cash count sheet is attached as Appendix 2.

- **Surprise Cash Count:**

A surprise cash count should be done at least twice a month. It should be done by the CEO or elected officials (Supervisory Committee), who are not usually involved in the daily cash reconciliation. The Supervisory Committee should routinely, but not less than once a quarter, perform unannounced (surprise) cash counts. The CEO or elected officials themselves in the presence of the cashier and Accountant should complete the surprise cash count and document the results in the cash count sheet duly signed by the cashier, Accountant (or the CEO) and the participating elected officials. Any case of cash difference against the system-generated report should be investigated thoroughly. If a cashier is found to be responsible he or she should be penalized and required to replenish the deficit cash amount. In the case of a significant deficit the cashier should be dismissed from his/her position and most likely from the IIFC.

CASH SHORTAGE/OVERAGE

- **Cash Shortage:**

Any amount of cash shortage should be accounted and reported immediately. All means should be explored in locating any amount of difference before declaring it as such. Once declared, on the same day the person responsible should make an incident report checked by his/her immediate supervisor, confirmed by the CEO. Depending on the case the shortage must be replenished (paid) by the responsible staff either immediately, or on installment basis. Regardless of the cash shortage replenishment disciplinary action or suspension should be applied to the responsible person(s). Below are the required actions in case of the cash shortage:

Up to US\$ 100 - written reprimand, the cash shortage shall be paid within 15 days
US\$ 101 – 200 - written reprimand, the cash shortage shall be paid within 30 days, 30 days suspension
US\$ 201 - 600 - written reprimand, the cash shortage shall be paid within 45 days, permanent suspension from any cash handling position
US\$ 600 & above - written reprimand, the cash shortage shall be paid within 60 days, subject to termination

Regardless of the amount, the responsible staff will be subject to termination after three (3) instances of cash shortage in a year not including instances of proved erroneous posting. However, three (3) instances of erroneous postings of transactions when error-correction cannot be done render the staff member subject to written reprimand and possible dismissal from any cash handling position.

- **Cash Overage:**

Any amount of cash overage should be accounted and reported immediately. All means should be explored in locating any amount of difference before declaring it as such. Once declared, on the same day the person responsible should make an incident report, checked by his/her immediate supervisor, and to be submitted to the CEO.

Any amount of cash overage will be booked to Accounts Payable and if there are no justifiable claims within six (6) months after it occurred, the amount will be booked to Unclaimed Balances for

the period of (2) years. Thereafter, US\$ 100 will be booked as income every month until the whole amount is consumed.

CASH RECEIPTS SYSTEMS AND PROCEDURES

• **Forms and Books**

The following source documents and books should be used by the IIFC when recording and accounting for the cash receipts:

- Official Receipt (OR)
- Bank Deposit Slip (DS)
- Subsidiary Ledger (SL)
- Membership Permanent Share Capital Ledger
- Savings Deposit Ledger
- ICF Ledger
- Daily Cash Collection Report (DCCR)
- Daily Cashier Summary Report (DCSR)
- Cash Receipts Book (CRB)
- General Ledger (GL)

• **Official Receipt**

The Cashier is responsible to the IIFC for all cash received and subsequent cash deposits to the bank account.

A pre-numbered Official Receipt (OR) duly signed by the Cashier or any employee authorized to receive cash, is issued to the payer to confirm the receipt of cash.

Official Receipt (OR) is issued in three (3) copies and distributed as follows:

- OR-1 (original) - to the payer (member)
- OR-2 (duplicate) - to accounting/Accountant
- OR-3 (triplicate) - cashier documents/filed to Daily Cash Collection Report

The numerical sequence of the ORs issued by the cashier is checked by the Accountant daily before recording in the Cash Receipt Book (CRB).

The total amount of cash receipts in the ORs is compared by the Accountant against the daily collection report and bank deposit slip (DS).

All copies of cancelled ORs are stapled, preserved and retained in the booklet and marked as "CANCELLED"

• **Depositing cash to the bank account**

Cash collection should not be mingled with the revolving fund.

Cash receipts retained on the premises overnight are to be kept to a minimum and it should be locked up in the vault.

Cash received during the day should be deposited intact on the same banking day.

The cashier is responsible to receive cash and issue the corresponding Official Receipt (OR)

Should employee(s) other than cashier be authorized to receive cash, they should also use pre-numbered ORs. These employees should hand over daily collection together with the used and unused ORs and Daily Cash Collection Report (DCCR).

Upon handover of cash collections, the Cashier should put his/her initials at the back of stub copy of the last ORs issued and sign the DCCR to indicate that collections have been duly handed over to him/her.

The Accountant is responsible for safekeeping, controlling and checking the usage of ORs through a logbook.

Bank deposit slips (DS) are prepared in three (3) copies and distributed, after bank validation, as follows:

- DS-1 (original) - to the bank
- DS-2 (duplicate) - attached to voucher
- DS-3 (triplicate) - attached to Daily Cashier Summary Report

• **Finance and Accounting Reports**

At the end of the day the cashier or other employee authorized to receive cash and the Accountant should prepare the following reports reflecting the cash receipt transactions:

REPORTS	PERSON RESPONSIBLE
DAILY REPORTS	
1. Daily Cash Collection Report	Cashier
2. Daily Cashier Summary Report	Cashier
3. Cash Receipt Book	Accountant
MONTHLY REPORTS	
1. Monthly Cash Position Report	Cashier

Persons/Unit Involved	Basic Responsibilities
1. Cashier	<ol style="list-style-type: none"> 1. Receives cash from: <ol style="list-style-type: none"> a. Payer b. Bank Withdrawal c. Partner Agency 2. Prepares and issue Official Receipts in three (3) copies, indicating the amount received from Payer, Bank or Partner Agency. <i>OR will be distributed as follows:</i> <ul style="list-style-type: none"> OR-1 – to be issued to the payer, partner agency OR-2 - to be transferred to the Accountant and attached to the Cash Receipt Book OR-3 - to be attached to Daily Cash Collection Report (DCCR) 3. Post the OR to the member/borrower passbook 4. Prepares and up-date DCCR as the transaction occurs 5. At the end of the day <ol style="list-style-type: none"> a. Detaches OR-2 from the booklet and attach to DCCR b. Add amount shown in DCCR c. Reconciles DCCR with the total collections on hand; and d. Prepares the Daily Cashier Summary Report (DCSR) based on the DCCR and other pertinent documents during the day. e. Prepares the bank deposit slip in three (3) copies f. Deposit intact collections to the bank g. Obtain two (2) copies of validated bank deposit slip and forwards to the Accountant
2. Accountant	<ol style="list-style-type: none"> 1. Receives the OR-1 and passbook from the Cashier 2. Post the OR-1 to the individual member/borrower subsidiary ledger (SL) 3. Return passbook and OR-1 to the member/borrower 4. At the end of the day: <ol style="list-style-type: none"> a. Receives DCCR with OR-2 and other pertinent documents such as bank withdrawal slip from the cashier; <ol style="list-style-type: none"> 1) Checks the following data shown in the DCCR: <ul style="list-style-type: none"> - Entries against the OR-2 and other pertinent documents for the day - Check mathematical computation of DCCR total - Reconcile DCCR with the total collections on hand; - Check total cash balance reflected in the Daily Cashier Summary Report (DCSR) as against the total cash on hand; - Records daily the collections based on the DCCR in the Cash Receipts Book (CRB) 2) Receives the two (2) validated bank deposit slip from the cashier 3) Attach validated bank deposit slip (DS) as follows; <ul style="list-style-type: none"> - Validated DS-1 attach to Cash Disbursement Voucher (CDV) - Validated DS-2 attach to DCCR 4) Reconciles the total amount reflected in the validated deposit slip against the DCCR 5) At the end of the month; <ul style="list-style-type: none"> - Fools and cross fools the CRB - Post all pertinent data or total of per account from the CRB to the General Ledger (GL) - Safe keep the following <ol style="list-style-type: none"> a. DCCR with ORs and validated DS b. DCSR c. Other accounting/financing documents
3. CEO	<ol style="list-style-type: none"> 1. At the end of the day: <ul style="list-style-type: none"> - Review and approve the DCCR and DCSR

All records in the above three journals shall coincide with the source documents (official cash receipts and bank deposit slips) and each other.

Recording of Receipt

The detailed procedures for the cash receipt cycle and its recordkeeping are included below:

Cash Disbursement System and Procedures

Forms and Books

The following source documents and books should be used by the IIFC when recording and accounting for the cash disbursements:

- Cash Disbursement Vouchers (CDV) Supporting Documents:
 - Savings/Time Deposit Withdrawal Slip
 - Membership Withdrawal forms
 - Cash Advance Slip
- Daily Cash Disbursement Report (DCDR)
- Cash Advance Slip (CAS)
- Daily Cashier Summary Report (DCSR)
- Cash Disbursement Book (CDB)
- General Ledger

Cash Payment

- All Cash Disbursement Vouchers (CDV) should be pre-numbered and properly supported by the documents (contracts, invoices and etc.). The Accountant should review and check the validity of the CDV and its supporting documents.
- The CDV is prepared in two (2) copies and distributed as follows:
 - CDV-1 (original) - to the payee
 - CDV-2 (duplicated) - to accounting
- Then CDVs shall be forwarded to the CEO for approval.
- CDVs covering disbursements over the amount the CEO is authorized to approve shall be pre-audited by the supervisory committee and approved by the Chairperson of the BOD.
- All disbursements should be made only on the basis of approved CDV with supporting documents attached.
- Upon release of cash, the cashier will stamp “PAID” all copies of CDV and its supporting documents indicating therein the date of payment.
- The CDV will be signed by the payee to acknowledge the receipt of payment upon release of cash.
- For any cash disbursement transactions with a third party (not a member) the cashier should require the payee to issue official receipt or other evidence in exchange of the cash.

General Procedure

Persons/Unit Involved	Basic Responsibilities
Cashier	- Prepares Cash Disbursement Vouchers (CDV) based on the supporting documents and the corresponding subsidiary ledgers.
Accountant	- Posts (CDV) to subsidiary ledgers upon occurrence of the transactions - Reviews CDVs and the adequacy of the supporting documents - Forwards the CDVs to the CEO for approval
CEO	- Reviews CDVs and the adequacy of the supporting documents and approve by signing the CDV.

Detailed Procedures

Persons/Unit Involved	Basic Responsibilities
1. Cashier	<ol style="list-style-type: none"> 1. Prepares Cash Disbursement Voucher (CDV) in two (2) copies based on the supporting documents and forwards the CDV and supporting documents to the Accountant for checking. 2. Upon receipt of CDV-1 and 2 with supporting documents approved by the CEO and Accountant, records the cash in the daily disbursement report. 3. Releases the cash to the payee, receives his/her confirmation signature on CDV-1 and 2 and posts the transaction to the member/borrower's passbook. 4. Stamps "PAID" on the CDVs indicating the date of payment. 5. Files CDV-2 and forwards CDV-1 with supporting documents to the Accountant.
2. Accountant	<ol style="list-style-type: none"> 1. Receives from various sources documents supporting the cash disbursement, such as: <ol style="list-style-type: none"> a. For cash purchases or payment of payables <ul style="list-style-type: none"> - Suppliers Sales Invoice (SSI) or Suppliers Official Receipts (SOR) b. For payroll <ul style="list-style-type: none"> - Daily Time Record (DTR) - Payroll Summary Sheet c. For Petty Cash Replenishment <ul style="list-style-type: none"> - Petty Cash Vouchers (PCVs) - Petty Cash Replenishment Summary Reports (PCRS) with attached supporting documents d. For ICF releases <ul style="list-style-type: none"> - Duly accomplished and approved member's ICF application forms. e. For Employees and Officers Cash Advances <ul style="list-style-type: none"> - Duly accomplished and approved cash advance slip (CAS) 1. Reviews and checks the documents and forwards the same to the cashier for CDV preparation.

	<ol style="list-style-type: none"> 2. After receipt of the prepared CDV from the cashier, forwards it with all supporting documents to the CEO for his approval. 3. At the end of the day: <ol style="list-style-type: none"> a. Receives CDV-1 with supporting documents from the cashier; B. Records CDV-1 in the Cash Disbursement Book (CDB) in chronological manner daily. c. Adds up all paid CDVs for the day and reconciles with the total cash outflow reflected in the Daily Cash Disbursement Report (DCDR) and the Daily Cashier Summary Report (DCSR) of the cashier. d. Posts the CDV-1 to the individual member/borrower's subsidiary ledger (SL).
3. CEO	<ol style="list-style-type: none"> 1. Receives the CDV-1 and 2 with supporting documents from the Accountant. 2. Reviews CDVs for the adequacy and compliance with the supporting documents, approves and signs CDV in case everything is in order. 3. Forwards approved CDV-1 and 2 with supporting documents to the cashier for payment or returns the documents to the Accountant for the adjustment and correction.

Petty Cash Fund System and Procedures:

Main Features

Petty Cash Fund System and Custodianship

- An amount of US\$ _____ will be set-up as petty cash fund to take care of minor disbursements to respond savings/time and share capital withdrawals of members to facilitate efficient service to the member depositor.
- The funds are maintained on an advance system: at any given time, the total fund balance on hand and the un-replenished disbursements should be equal to the total fund being maintained.
- The funds are in the custody of the cashier. Access to and responsibility to the funds is limited to the cashier.
- Petty cash fund should not be merged with the daily collection; it should be kept in a separate drawer.

Petty Cash Fund Voucher

- Petty cash fund disbursements must be supported by an approved petty cash fund voucher (PCV) with supporting documents.
- PCVs should be approved by the manager or designated alternate before any payment is made.
- PCVs will be signed by the payee to acknowledge the receipt of payment upon release of cash.

- The cashier should require the payee to issue official receipt or other evidences in exchange of the cash.
- After payment, the PCV and its supporting documents is numbered and stamped “PAID” with the date of payment noted thereon in ink.

Petty Cash Fund Replenishment

The cashier shall request petty cash fund replenishment when 80per cent of the total fund is used up, by preparing a replenishment summary with paid PCVs attached to it. The cashier forwards the replenishment summary to the Accountant for checking and approval; and then the cashier prepares a cash disbursement voucher (CDV) to replenish the fund.

Surprise Cash Count

Regularly, but not less than once a month, the Accountant, CEO or supervisory committee conducts a surprise count of the petty cash fund and prepares a report reflecting the cash count results.

General Procedure

Persons/Unit Involved	Basic Responsibilities
1. Cashier	1. Takes care of the disbursement from petty cash fund and prepares petty cash fund voucher. 2. Prepares petty cash fund replenishment summary 3. Prepare cash disbursement voucher for replenishment
2. Accountant	1. Checks petty cash fund replenishment summary against petty cash fund vouchers. 2. Reviews CDVs for the adequacy of supporting documents and signs CDVs. 3. Forwards the same to the CEO for approval.
3. CEO	1. Reviews the propriety of petty cash fund disbursements and approves petty cash fund vouchers and cash disbursement vouchers.

Detailed Procedure

Persons/Unit Involved	Basic Responsibilities
1. Cashier	1. Receives billing, approved withdrawal slip, and approved membership withdrawal from the payee. 2. Prepares petty cash fund voucher (PCV) in one (1) copy based on the supporting documents and forwards it to the Accountant for checking and to the CEO or designated alternate for approval. 3. Checks that the PCV is properly approved by the CEO or designated alternate. 4. Disburses cash to payee 5. Numbers the PCV

	6. Stamp "PAID" on the PCV and supporting documents and files temporarily until next replenishment.
2. CEO or designated alternate	1. Receives PCV together with the supporting documents 2. Reviews propriety of disbursements from petty cash fund. 3. Determines whether the amount requested is within the policy and approves PCV then forwards it to the cashier for payment.

Petty Cash Fund Replenishment Procedures

Persons/Unit Involved	Basic Responsibilities
1. Cashier	1. Prepares petty cash fund replenishment summary report (PCFR) when 80 per cent of the fund is used up and attached paid PCVs with supporting documents. 2. Forwards PCFR with attach paid PCVs and supporting documents to the Accountant for checking and approval. 3. Prepares cash disbursement voucher (CDV) to replenish the fund and forwards it to the Accountant for review and checking.
2. Accountant	1. Receives PCFR together with the paid PCVs and supporting documents from the cashier. 2. Checks PCFR against paid PCVs and supporting documents and simultaneously review accounts charged against the individual PCVs make necessary corrections, if needed. 3. Indicates account distribution of the paid PCVs.

APPENDIX 1

CASH SAFE COMBINATION AND KEYS CERTIFICATION

This certifies that I am the primary/alternate holder of the Cash Safe Combination and/or keys of Islamic Investment and Finance Cooperative (IIFC).

I am aware of the IIFC's policy for maintaining the confidentiality of the combination and or the security of the keys and I accept complete responsibility for acting in accordance with that policy. I am also aware that I have to change the cash safe combination every ninety (90) days or every other time it is required for security reasons.

Cash Safe Combination: _____ Date Changed: _____

Cashier's Name & Signature: _____ (primary)

Cash Safe Combination: _____ Date Changed: _____

CEO's Name & Signature: _____ (alternate)

Cash Safe Key/s (how many): _____

Accountant's Name & Signature: _____ (primary)

Cash Safe Key/s (how many): _____

ICF Officer's Name & Signature: _____ (alternate)

NOTE: You must send a sealed copy of this certification to the National Association.

APPENDIX 2
CASH PROOF SHEET

Islamic Investment and Finance Cooperative		
Place: _____		
As of Date: _____		
Denomination [TBD based on the country currency denomination]	Quantity	Amount
100	X	
50	X	
20	X	
Total Bills:		
	X	
Total Coins:		
Add PETTY CASH/BAIT (AMOUNT):		
GRAND TOTAL:		
TOTAL CASH BASED ON THE ACCOUNTING RECORDS:		
DIFFERENCE (cash shortage or overage):		
Prepared by:		
<p>I hereby certify that the above total amount as to its denominations is true and correct as counted and verified by me as of end of day:</p> <p>These funds represent all cash funds of the IIFC for which I am accountable. If there is cash short or over condition noted, I agree with the difference.</p>		
Checked by:		

Remarks (Any amount of Shortage or Overage must be reported or explained to TAs on the same day):

Chapter Ten

Internal Controls

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the standards and requirements for the Islamic Investment and Finance Cooperative (IIFC) on establishing of internal controls system and determine the methods and measures to be used in order to control the IIFC's daily operations safeguard its assets and prevent possible mistakes and errors.

Internal controls are mechanisms, policies, and procedures used to minimize and monitor operational risks. The internal control system presents a management mechanism aimed at control of everyday activity of the IIFC, including:

- Operational policies and procedures;
- Segregation of duties and responsibilities;
- Performance of internal and external audits;
- Supervision for everyday transactions and accounting; and
- Control of expenses.

In order to deter employees and/or members from committing a dishonest or fraudulent act the controls must be thorough and comprehensive. However, internal controls by themselves are not enough. They will be effective only if they are reinforced by the IIFC's internal culture, policies and procedures, information systems, training, and supervision of staff.

Usually fraud is perpetrated by falsifying or altering documents, embezzling funds, omitting the effects of transactions, recording non-existent transactions, and/or incorrectly using accounting policies and procedures. Weak internal controls not only allow for the perpetration of fraud, but also allow for errors and unintentional mistakes to go undetected for a long period of time. Usually, these errors individually do not represent a large amount of funds, however, the cumulative total can be material and the time needed to correct the error significant.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of daily operations and applicable legislative requirements.

SCOPE AND RESPONSIBILITY

This policy shall be applicable to all offices, divisions and departments of the IIFC. Responsibility of management includes the constant supervision, review and revision of the internal control system. Employees responsible for critical elements of the internal control environment must report directly to management. As a part of their reporting they should be able to discuss the adequacy of the internal control environment and make suggestions for improvements.

Each IIFC's department or division must have internal controls in place for all transactions processed and such control is to be included as part of the responsibilities of all employees with the IIFC's CEO having ultimate responsibility. The IIFC's Supervisory Committee along with the BOD shall determine on a periodic basis whether internal controls are adequate to protect member funds. All Supervisory Committee reports should be made in writing with objectives, audit procedures used, conclusions and recommendations noted. Annually the external audit shall comment on the adequacy of IIFC's internal controls.

OBJECTIVES OF INTERNAL CONTROLS

The primary objectives of internal controls are to:

- Safeguard assets and member savings;
- Verify the efficiency and effectiveness of the operations;
- Assure the reliability and completeness of financial and management information;
- Prevent fraud and mistakes; and
- Ensure compliance with applicable laws and regulations.

Internal controls can be broken down into two categories – accounting and administrative controls. These two categories are not mutually exclusive; some of the procedures and records involved in accounting control also apply to administrative control.

ADMINISTRATIVE CONTROLS

Administrative Controls – Administrative control is a CEO responsibility that directly affects the success or failure of the IIFC. These controls establish lines of authority and responsibility, segregate the operating and recording functions, and provide for the hiring of qualified employees.

The effective plan for administrative control should contain the following at a minimum:

- **Accounting System** – The BOD should adopt an accounting system that is flexible in its capacity and rigid in its controls and standards. The system should provide timely, accurate, and useful data to all employees. All staff should be adequately trained on the system prior to performing transactions that affect general ledger and member accounts.
- **Written Policies and Procedures** – The IIFC's policies are established by the BOD to direct operations and establish clear limits and authority. The written policies should be accompanied by the written operational procedures. Procedures describe “how” to do a job. Regardless of the IIFC's size, written policies and procedures are imperative. Policies and procedures let all employees know what is expected of them, how they should perform their job duties, and what the consequences are if they do not perform them as required. Written policies and procedures also enable the IIFC and its employees to treat all member clients consistently. These policies and procedures should be included in a regularly updated operations manual. The manual should clearly define the steps required for each transaction, explain how to handle exceptions, and delineate lines of authority. Employees should be required to review all policies that pertain to their position during initial job training and annually thereafter.
- **Board's Approval and Monitoring of Information** – In addition to policy, the BOD establishes control and direction through the annual budget and the longer-term business plan that they develop, approve, and review on a periodic basis. The BOD should request, at least monthly, the following reports to monitor the financial condition of the IIFC:
 - Balance Sheet;
 - Income Statement;
 - Cash Flow and Liquidity Analysis;
 - Comparison of Actual Results to Budgeted Figures;
 - Outstanding Investments;

- Delinquent ICFs; and
 - Savings and Shares.
- **Cash Control** – Cash is the most liquid and accessible asset to most employees. As such, controls to prevent the conversion of this asset by officials or employees for their own personal use should be established. Adequate cash controls include:
 - Surprise cash counts that are performed routinely;
 - Cashiers being required to balance the contents of their cash drawer with the general ledger total daily. Cashiers should not be allowed to leave the IIFC until the drawer balances or the difference has been recorded as income or expense;
 - Cash limits established for the total amount that can be kept on the IIFC’s premise, in the vault, and in each cashier’s drawer;
 - Limited access to the vault and cashier drawers to those individually responsible for the funds in the vault or drawer;
 - Immediate verification under dual control of cash upon receipt;
 - Counting of cash under dual control if tellers transfer funds to or from the vault or another teller;
 - Documentation of all transactions made by and between cashiers with a receipt;
 - Vault and cashier drawers equipped with adequate, functioning, locking devices; and
 - Prohibiting cashiers and employees to transact business on their own accounts or those of their relatives. (Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.)
- **Segregation of Duties** – The participation of two or more persons in a transaction creates a system of checks and balances and considerably reduces the opportunity for fraud. The IIFC should assign duties so no one person dominates any transaction from beginning to end. For example – A person handling cash should not post to the accounting records; an ICF officer should not disburse ICF proceeds for advances they have approved; and those having authority to sign checks should not reconcile bank accounts. In situations where this separation of duties is not possible, because of a limited staff, the Supervisory Committee should perform additional procedures to offset the lack of adequate control.
- **Dual Control** – Accessing vaults, files, or other storage devices should require at least two keys or combinations under the control of at least two different people. Effective dual control mandates that all employees carefully guard their key or combination. If these procedures are in place, this important control feature can only be bypassed by collusive activity between staff members. Examples of items that should be under dual control are:

vault cash, negotiable collateral, investment securities, checks, pre-numbered cash receipt and disbursement vouchers, dormant savings accounts, and spare keys to cashier drawers.

- **Protection of Assets** – A principal method of safeguarding assets is to limit access to authorized personnel only. Protection of assets can be accomplished by:
 - Developing operating policies and procedures for cash control;
 - Establishing dual control over cash;
 - Conducting periodic physical inventories of the IIFC’s assets;
 - Protecting assets by purchasing adequate insurance;
 - Requiring the use of passwords to access the computer system and changing passwords no less than quarterly; and
 - Limiting physical access to cash and the computer system.
- **Zero Tolerance** – The IIFC should have a culture that supports internal controls and does not tolerate excessive errors or fraud. These values can be promoted by establishing:
 - Severe consequences for fraud that are written, conveyed verbally, and strictly followed. Fraudulent acts should be met with swift and permanent action in every case – no exceptions;
 - Clear negative consequences for staff with excessive error rates;
 - A performance-based incentive system that rewards high productivity and low error rates;
 - Competitive salaries that reduce the motivation to commit fraud;
 - Training that explains the reasons behind internal controls and emphasizes how fraud and errors hurt the institution and its members; and
 - Procedures in place that allow employees to confidentially report suspected cases of fraud to management.
- **Personnel Policies** – Personnel policies should specifically state the consequences for fraudulent acts and excessive errors so each employee understands the ramifications of such actions. Employees should be familiar with the personnel policy; a review of this policy should be part of each employee’s initial training. The policy at a minimum should:
 - Require management to check references of prospective employees;
 - Include written position descriptions that define the duties, responsibilities, and performance standards for each position; and
 - Require written performance appraisals of all employees annually.

In order to prevent theft and fraud at IIFC, each individual staff member currently working for IIFC MUST provide a guarantee letter of a senior ranking government official or a well-known trader or a well – respected person in the community. The guarantors should agree to guarantee the character

of the staff members and make the staff available in case he/she runs away, stealing funds or other valuables from IIFC or its members.

- **Rotation of Personnel** – From time to time, employee job functions should be rotated unannounced. The rotation should be of sufficient duration to discover any fraud. Besides being an effective internal check, rotation of personnel is a valuable aid in the IIFC's overall training program as employees learn how to perform other jobs. The cross-trained employee can substitute when other employees take vacations, are absent, or are rotated.
- **Succession Planning** – The on-going success of the IIFC will be greatly impacted by the ability to fill key management positions in the event of resignation or retirement. Succession planning should address the IIFC CEO and other senior management positions. The existence of a detailed succession plan that provides trained management personnel to step in at a moment's notice is essential to the long-term stability of the IIFC.
- **Mandatory Vacations** – The IIFC should have a vacation policy that requires all employees to take at least 5 consecutive working days off (frequency?). During this time they should have no access to the IIFC records. An uninterrupted work schedule frequently is needed to embezzle funds unnoticed.
- **Quality Control** – The Supervisory Committee should implement a review process, also known as internal auditing, to determine that management and staff comply with the IIFC's policies and procedures.

ACCOUNTING CONTROLS

Accounting Controls - Accounting controls should provide reasonable assurance that staff performs transactions according to management's direction and their authorization level. In addition, transactions should be recorded and financial statements prepared according to accepted accounting principles. The IIFC's records must reflect its actual financial condition, structure, and results of operation. The following controls should be part of the internal control environment and should be helpful both to inform the IIFC's BOD and to enhance managerial effectiveness:

- **Daily Posting** – Posting records daily will maintain each day's activities separate and distinct from another day's work. This makes it much easier to locate errors and make corrections. At least monthly, staff must individually prove and balance each general ledger account with its supporting subsidiary ledger, including zero balance accounts with activity during the month.
- **Subsidiary Records** – No less than monthly accounting staff should balance subsidiary records such as share and ICF ledgers, bank and investment statements and individual cashier records with the respective general ledger control accounts. A staff member, other than the preparer of the subsidiary and reconciliations between the subsidiaries and general ledger accounts, should review the periodic reconciliations and document their reviews.
- **Internal Reports** – The IIFC should design their accounting systems to facilitate the preparation of internal reports (e.g. Delinquent ICFs, Dormant Savings Accounts, Negative Share Accounts, etc.) necessary to review key areas of operation. A staff member who is not involved in the transactions should regularly review all of the reports. The review of the reports should be

documented and any irregularities discussed immediately with the IIFC's CEO.

- **Recording of Transactions** – The IIFC should use transparent accounting practices that are prescribed by accepted accounting principles to record all transactions. The recording of transactions should be consistent from one accounting period to the next. The IIFC may not defer expenses or accelerate income for the purpose of manipulating earnings.
- **Sequential Numbering** – Sequentially numbered instruments used for items such as checks, cash receipt and disbursement vouchers, journal vouchers, passbooks and share certificates assists in reconciling and controlling used and unused items. The IIFC should retain unissued, pre-numbered items under dual control.
- **Audit Trail** – The IIFC's records and systems should provide an audit trail (i.e. paper documentation) that allows for the tracing of each transaction from its inception to completion. The documentation should include the name of the individual making the transaction, the date of the transaction, how much it is for, and what general ledger accounts it effects. Some of the more common record keeping deficiencies include:
 - General ledger entries that fail to contain an adequate description of the transaction;
 - Lack of permanent and satisfactory records pertaining to cash items and overdrafts;
 - Teller cash sheets that do not contain adequate details;
 - Investment subsidiary ledger that fails to list all necessary information;
 - Bank account reconcilements that are not current or fail to reflect the description and disposition of outstanding items;
 - Inadequate details concerning debits and credits to the cash account;
 - Correcting record keeping errors by erasing instead of crossing through the error;
 - Numerous corrections each month;
 - Failure to make daily postings to the accounts and records;
 - Failure to promptly close the books each month; and
 - Failure to review exception and other internal control reports.
- **Audit Program** – The IIFC should have an adequate audit program. The IIFC should employ the expertise of an external auditor to perform the annual audit. At the same time the supervisory committee should perform the account verification and internal audit functions. Ideally, the IIFC should have an audit program that consists of the supervisory committee performing regular internal audit and an annual external audit performed by an independent third party accounting firm.

The scope of the internal audit depends on the size of the IIFC and the number and complexity of the services offered. Regularly and periodically the Supervisory Committee should perform at the minimum: bank reconcilements, cash counts, review of employee and official's ICF and advances, review of activity within accounts designated as dormant, and review of expenses and the supporting documentation.

INTERNAL CONTROLS QUESTIONNAIRE

GENERAL: To ensure the overall organizational structure and controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Does IIFC have an up-to-date copy of Operational Manuals and Procedures?				
	Does IIFC have a written signature policy specifying who is authorized to sign different documents for all departments?				
	Does IIFC maintain a key control log?				
	Does IIFC have in place processes that seek to identify and record key business risks (linked to business objectives and targets) on an on-going basis?				
	Have these risks been evaluated and prioritized?				
	Has the management of each risk been allocated to a relevant manager?				
	Does IIFC receive reports on the management of key risks and control actions taken?				
	Do all the IIFC's departments review from time to time the effectiveness of internal controls in their areas?				
	Have all the IIFC's departments taken action to improve controls?				
	Is good communication, collaboration, and team effort stressed?				
	Is management open to employee suggestions to improve productivity, service, and quality?				
	Do management and employees have the knowledge, training, and skills necessary to perform their jobs adequately and continue to take advantage of on-going training opportunities?				
	Has management established a mission statement, set goals, and developed plans to meet its objectives?				

	Are plans and performance periodically assessed?				
	Are the unit's performance targets realistic and attainable?				
	Is the unit's organizational structure and lines of authority clearly understood by employees?				
	Are employee job descriptions, desk procedures, and other internal operating procedures current?				
	Does employee morale appear to be at an acceptable level? If not, what actions are being taken to address this?				
	Does the IIFC have the time, tools, and resources to effectively accomplish its mission and objectives?				
	Are clear lines of authority and responsibility documented in an organization chart?				
	Are there written policies establishing responsibilities for management of personnel?				
	Are written accounting policies and procedures established to describe the accounting system and ensure that similar transactions are processed consistently?				
	Are the duties and responsibilities as outlined in written policies communicated to employees?				
	Has the CEO responded to internal control deficiencies pointed out through the most recent audit, if any?				
	Are recommendations made by the independent outside auditor implemented?				
	Is each bank account authorized by the BOD or by the person delegated by the Board?				
	Is delegation of this authority documented in the BOD' minutes?				
	Is there evidence in the minutes that the				

	BOD or designated committee approved the operating budget?				
Budgeting and Planning: To ensure the budgeting and planning process is adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Does the IIFC have the written and formulated business strategy?				
	Does the IIFC's written strategy include clear goals and objectives?				
	Are the objectives incorporated with plans of action?				
	Is the IIFC strategy realistic to accomplish?				
	Was the business plan and projected financial statements submitted to the BOD for their review and approval?				
	Does the IIFC prepare and use an annual overall financial plan or operating budget to allocate its resources and provide a system of evaluating control?				
	Does the budget ensure accomplishment of overall business objectives and performance targets?				
	IIFC does not exceed the approved budget for operational expense?				
	Are actual expenses compared with budgeted expenses on a monthly basis?				
	Is there a policy requiring internal reporting be prepared within a prescribed number of days after month-end?				
	Do the reports display variances for each expense?				
	Is there an organized process for ensuring the development of budget information?				
	Are the IIFC's elected officials and executive staff aware of the IIFC's strategy goals and objectives?				
	Do the IIFC's officials and employees have a clear understanding how to achieve the strategy objectives?				

	Have reports been prepared and submitted in accordance with management's policies?				
	Do the IIFC BOD minutes demonstrate that the strategy achievement results and financial targets are regularly reviewed?				
	Are responsibilities for budget preparation, adoption, execution, and reporting each assigned to different staff members?				
Cash and Bank: To ensure the cash and bank internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Bank accounts can be opened or closed only by resolution of the BOD or other authorized body or official?				
	Signatories for cash disbursements can be added only by resolution of the BOD or other authorized body or official?				
	Procedures ensure that at least two persons need to be involved in the payment (e.g. wire transfer) execution process, and specific cut-off times are respected.				
	Cash and blank cheques are secured in safes or vaults. Satisfactory security measures exist over keys, codes, and/or combinations for the safes. The codes and combinations are periodically changed.				
	Reconciliations between bank statements and general ledger are performed on a regular basis and reviewed and approved by management. Reconciling items are researched and corrected as necessary.				
	Are petty cash funds periodically balanced to ensure cash and vouchers equal the fund balance?				
	Are responsibilities for collection and deposit preparation functions adequately segregated from those for recording cash receipts and general ledger entries?				
	Are responsibilities for cash receipts functions adequately segregated from				

	those for cash disbursements?				
	Are responsibilities for disbursement preparation and disbursement approval functions adequately segregated from those for recording or entering cash disbursements information on the general ledger?				
	Are responsibilities for the disbursement approval function adequately segregated from those for the disbursement, voucher preparation, and purchasing functions?				
	Are responsibilities for preparing and approving bank account reconciliations adequately segregated from those for other cash receipt or disbursement functions?				
	Are responsibilities for entries in the cash receipt and disbursement records adequately segregated from those for general ledger entries?				
Do disbursements procedures provide for the following?					
	Procedures providing for immediate notification as applicable to banks when check signers leave the IIFC or are otherwise no longer authorized to sign?				
	Furnishing invoices and supporting documents to the signer prior to signing the check to help ensure funds are disbursed only for authorized purposes; and to help ensure laws, rules, and regulations are followed?				
	Requiring two signatures on checks over a stated amount?				
	Prohibiting the drawing of checks to "cash" or "bearer"?				
	Controls to ensure all payments are made on a timely basis and in accordance with all purchase orders and contracts?				
	Controls to ensure duplicate payments are not made?				

	Are original invoices (no copies) totalling the amount of the disbursement attached to each voucher before payment?				
	Controls to ensure each cash disbursement is properly vouchered and approved by the proper authorities before the disbursement occurs?				
Do custody procedures provide for the following?					
	Maintenance of controls over the supply of unused and voided checks?				
	Proper authorization of bank accounts?				
	Periodic reviews of and formal reauthorization of depositories?				
	Controls and physical safeguards surrounding petty cash funds?				
Do detail accounting procedures include the following?					
	Procedures ensuring collections and disbursements are recorded accurately and promptly in the correct fund or account?				
	Procedures for authorizing and recording inter-bank and inter-fund transfers and providing for proper accounting for those transactions?				
Do general ledger procedures provide for the following?					
	Delivery of bank statements and paid checks in unopened envelopes directly to the employee preparing the reconciliation?				

	<p>Procedures for steps essential to an effective reconciliation, particularly considering the following?</p> <p>a) Comparison of checks in appropriate detail with disbursement records?</p> <p>b) Examination of signature and endorsements, at least on a test basis?</p> <p>c) Accounting for numerical sequence of checks used?</p> <p>d) Comparison of book balances used in reconciliations with balances in general ledger accounts?</p> <p>e) Comparison of deposit amounts and dates with cash receipt entries?</p> <p>f) Footing of cash books?</p>				
	<p>Review and approval of all reconciliations and investigation of unusual reconciling items by an official not responsible for receipt and disbursements, including recording evidence of the review and approval, by signing the reconciliation?</p>				
	<p>Periodic investigation of checks outstanding for a considerable time?</p>				
	<p>Are all receipts pre-printed or computer-generated?</p>				
	<p>Are all receipts chronologically pre-numbered?</p>				
	<p>Do the receipts have at least three parts?</p>				
	<p>Are un-issued manual receipts adequately controlled (i.e., access restricted and responsibility pinpointed)?</p>				
	<p>If receipts are computer-generated, are there manual receipts for when the computer is down?</p>				
	<p>Do receipts contain adequate information (e.g. name, date, amount received, person making payment, method of payment, check or other reference number, payment distribution,</p>				

	signature of issuer)?				
	Is a copy of each receipt issued to the payer?				
	Does the cashier have a petty cash box?				
	Is a petty cash amount adequate without being excessive?				
	Is the adequacy of petty cash amounts periodically reviewed and adjusted as needed?				
	Are petty cash amounts secure overnight with responsibility pinpointed?				
	Is the overnight storage place fireproof?				
	Are all receipts dated and signed or initialled by the person issuing them?				
	Has it been explained to employees that no commingling of money is acceptable (i.e., personal money with IIFC's money, using IIFC money to make personal change)?				
	Are all copies of voided receipts retained and clearly marked "void"?				
	Does each person who receives money balance out daily?				
	Is the bank deposit/remittance approved by someone who does not receive money?				
	Are bank deposits/remittances made daily?				
	Is there a written policy for how to handle overages and shortages?				
	Are all disbursements made by check?				
	Are all checks sequentially pre-numbered?				
	Are all checks pre-printed with the name of IIFC?				
	Are all unused checks accounted for and adequately safeguarded with				

	responsibility affixed?				
	Are checks prepared only when supporting documentation is present and after such documentation is verified?				
	Does someone other than the person responsible for the bookkeeping function approve checks?				
	Is the payee line completed on all checks prior to approval?				
	Are checks prevented from being pre-signed?				
	Are authorized check signatures kept to a minimum?				
	Is the staff performing the reconciliation separate from the staff initiating and finalizing transactions?				
	Are reconciling differences, negative balances, and/or unsupported transactions investigated and corrected in a timely manner?				
	Does higher level management review the reconciled ledgers and appropriate supporting documentation and appropriately document its review in a timely manner?				
	Are deposits made in a timely manner?				
	Is knowledge of safe combinations or access to keys restricted to employees with a need-to-know or need-to-access, and is/are the combination/keys to the safe changed when there are changes to the staff that have knowledge of the safe combination or who have had access to the safe keys?				
	Is the petty cash fund periodically counted by surprise?				
	Are duties related to accounts receivable delegated so that no one individual can collect funds, update receivable records, and reconcile accounts receivable				

	details?				
	Purchases, Accounting and Financial Reporting: To ensure the purchase internal controls and accounting and financial reporting procedures are adequate to accomplishing the IIFC's objectives.	YES	NO	N/A	Comments
	Are procedures in place for, or is an employee charged with, monitoring accounts verifications?				
	Are the duties of recording accounts receivable and collecting accounts receivable segregated?				
	Are responsibilities for the final review and approval of financial reports adequately segregated from those for the preparation of the reports?				
	Are responsibilities for maintaining the general ledger adequately segregated from those for maintaining subsidiary ledgers?				
	Are the responsibilities for preparation and approval functions adequately segregated from those for journal entries?				
	Are responsibilities for principal accounting, for the treasury, and for custody functions adequately segregated?				
Do general ledger procedures and controls include the following?					
	A formal plan of organization under which reporting responsibilities are clearly defined and reasonably aligned?				
	Supervision of a principal accounting officer over accounting records and accounting employees at all locations?				
	General ledger control over all assets and transactions for all departments of the organization?				
	Written accounting policy and procedural manuals distributed to appropriate personnel?				
	Updating the accounting policy and procedural manuals, as necessary?				

	Procedures to ensure only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the organization?				
	Security for accounting records?				
	A formal policy regarding conflicts of interest?				
	Requiring written representations from appropriate personnel as to compliance with accounting policies and procedures and with ethics policies?				
	Periodically evaluating the adequacy and effectiveness of the internal accounting controls related to the organization's transaction systems (procurement, revenues, receivables, etc.)?				
	Implementing measures to correct weaknesses?				
Do closing procedures and controls include the following?					
	Procedures and policies for closing the accounts for a reporting period, sufficient to ensure accounts are closed, adjusted, and reviewed on a timely basis?				
	Procedures to ensure all accounting systems have included all transactions applicable to the reporting period?				
	Having all journal entries reviewed, approved, and supported by adequate descriptions or documentation?				
	Controls to ensure only authorized individuals can initiate entries?				
Do combining procedures and controls include the following?					
	Procedures to ensure orderly and effective accumulation of financial data?				
	Procedures for orderly processing of financial data received from departments and other accounting units?				

	Procedures to permit recording and review of special entries generated in the combining process?				
Do preparation, review, and approval procedures and controls include the following?					
	Procedures to ensure financial reports are supported by either underlying account records or other documentation?				
	Procedures providing reasonable assurances all data required to be included in legal, as well as public reports, are properly disclosed?				
	Procedures to ensure financial reports are prepared on a consistent basis?				
	Review and approval of financial reports at appropriate levels of management and, if appropriate, the legislature before public release?				
	Procedures to ensure all requirements for filing of financial reports are met?				
	Is a bookkeeping system maintained accounting for all financial management transactions?				
	Are books of original entry (i.e. journals) maintained?				
	Are adequate subsidiary records maintained?				
	Are transactions entered daily?				
	Are transactions entered from appropriate sources (e.g., receipt copies, bank deposit slips, remittance receipts, checks)?				
	Are daily entries verified for mathematical accuracy?				
	Are bookkeeping functions performed by someone who does not receive cash or approve bank deposits/remittances, or disbursements?				
	Are financial management reports prepared monthly showing the financial status of the IIFC as of the date of the				

	report and adequately summarizing transactions since the last report?				
	Depending on the size of the transaction, CEO reviews the transaction terms and approves the deal as appropriate to close.				
	A member of an appropriate level of management, after due diligence and related negotiations are complete, approves the transaction and executes the related documents.				
	Proper competitive bidding procedures are performed when required by the IIFC.				
	The accounting system accepts entries only when debit balance equals credit balance.				
	Only original invoices are used for recording invoices into the general ledger.				
	Bank reconciliation is reviewed by independent officer on a monthly basis. All reconciling items as presented on the bank reconciliation are reviewed by the general ledger supervisor for missing, duplicate, long outstanding cheques and large amounts. Explanation is provided on the bank reconciliation for unusual items.				
	Access to cheque signing privileges is limited to a small number of people. Multiple people must sign cheques over a certain amount. Two signatures by management are required for payments.				
	The general ledger supervisor reviews all journal vouchers to ensure that appropriate accounts codes are given for the transactions.				
	As part of the month end process, the accounting staff sequentially check the journal vouchers numbers used by comparing with the records in the general ledger. Skipped and duplicate numbers are investigated.				
	The appropriate level of management				

	<p>must approve all adjustments. Management's review includes an examination of source documentation. Discrepancies are resolved.</p>				
	<p>The system will not allow changes outside certain parameters (i.e., the system will not allow duplicate account numbers, will only allow liability accounts to be created with a certain range of account numbers etc). If an entry is made outside of the parameter, an error message will be displayed.</p>				
	<p>Management ensures compliance with chart of accounts performs a periodic review of the GL. Any discrepancies are identified and re-entered.</p>				
	<p>Management completes an annual review of the chart of accounts for appropriateness. Changes to the accounts are made to reflect management's findings.</p>				
	<p>Management approves all changes to the chart of accounts.</p>				
	<p>All significant financial statement accounts are reconciled to the general ledger on a monthly basis. Reconciling items are investigated and resolved in a timely manner.</p>				
	<p>The system will not process an entry if the entry does not balance. An error message will be displayed for the individual posting the entry to resolve.</p>				
	<p>All relevant accounts are locked down during the closing process; and only key personnel are responsible for the lock down activation.</p>				
	<p>All accounting policies are communicated to all units/subsidiaries; changes are reported as part of the subsidiaries reporting package.</p>				
	<p>All accounting policies are approved at a high level of accounting and finance management and the board of supervisors.</p>				

	The accounting system has controls that prevent expenditures in excess of approved and budgeted amounts.				
	Does only one individual have responsibility for and complete authority over financial transactions? (Explain your answer in the comments section.)				
	Have you received an audit report within the past year?				
	Does IIFC have a correction action plan in place for each finding?				
	Does your accounting system have procedures that govern the maintenance of accounts?				
	Are accounting entries adequately explained or supported and approved by responsible personnel?				
	Do you maintain approval authority for financial and accounting transactions?				
	Is your backup documentation secured in limited access areas?				
	Do you maintain source documentation to show the nature of each receipt and expenditure?				
	Is record keeping separated from operations or handling and custody of assets?				
	Are all reports reconcilable with the accounting records and system?				
	Do you have written cash control policies and procedures?				
	Are paid checks verified for date, name, and proper endorsements at reconciliation?				
	Do you maintain effective control over accountability for all funds, property, and other assets?				
	Has a chart of accounts been established which includes all accounts in the accounting system?				
	Are transactions in the accounting				

	records properly authorized, as evidenced by supporting documentation containing the signature of appropriate approving officials?				
	Does the IIFC have an accounting and finance manual that stipulates the duties of employees with accounting and finance functions?				
	Are the accounting policies followed by the IIFC in agreement with those stipulated in the IIFC's accounting and finance manual?				
	Are procedures followed which ensure that travel vouchers are actually signed by the traveller?				
	Are departmental procedures in place to assure travel vouchers are submitted in a timely manner?				
Do requisitioning procedures and controls include the following?					
	Initiation of purchases of goods and services by properly authorized requisitions bearing the approval of officials designated to authorize requisitions?				
	Using and accounting for pre-numbered requisition forms?				
	Indicating the appropriation to be charged on the purchase requisition by the person requesting the purchase?				
	Before commitment, verification by the accounting and budget department sufficient unobligated funds remain under the appropriation to meet the proposed expenditure?				
	Having technical specifications accompanying requests for special purpose (non-stock items) materials or personal services?				
Do purchasing procedures and controls include the following?					
	Structuring purchase authorizations to give appropriate recognition to the nature and size of purchases and to the				

	experience of purchasing personnel?				
	Purchase order, contract issuance, and contract approval procedures?				
	Periodic review of purchase prices by a responsible employee independent of the purchasing department?				
	Use of competitive bidding procedures?				
	If practical, rotation on a regular basis of contract or purchasing officer's areas of responsibility?				
	In contracts for materials, services, or facilities acquired on other than a fixed-price basis, requirements for an audit of contractor's costs prior to approving for payment?				
	Procedures for public advertisement of non-stock item procurement in accordance with legal requirements?				
	Periodic review of recurring purchases and documentation of the justification for informal, rather than competitive, bids?				
	Established, documented, and distributed policies regarding conflicts of interest and acceptable business practices?				
	Issuing purchase orders and contracts under numerical or some other suitable control?				
	Obtaining an adequate number of price quotations before placing orders not subject to competitive bidding?				
	Prohibiting split orders to avoid higher levels of approval?				
	Maintenance, by the purchasing department, of price lists and other appropriate records of price quotations?				

	Maintenance of a record, by the purchasing department, of suppliers who have not met quality or other performance standards?				
	Maintenance of an adequate record of open purchase orders and agreements?				
	Considering bid and performance bonds if construction contracts are to be awarded?				
	Subjecting changes to contracts or purchase orders to the same controls and approvals as the original agreement?				
Do receiving procedures and controls include the following?					
	Preparation of receiving reports for all purchased goods?				
	Taking steps to ensure goods received are accurately counted and examined, to ensure they meet quality standards?				
	Maintaining a permanent record of material received by the receiving department?				
	Numerically accounting for or otherwise controlling receiving reports, to ensure all receipts are reported to the accounting department?				
	Sending copies of receiving reports directly to purchasing, accounting, and (if appropriate) inventory record keeping?				

Does invoice processing include the following?					
	<p>Procedures and controls requiring:</p> <p>a) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?</p> <p>b) Invoice quantities, prices, and terms to be compared with those on the purchase order?</p> <p>c) Invoice quantities to be compared with those on the receiving report?</p> <p>d) Accuracy of calculations to be checked, as appropriate?</p> <p>e) Timely payment of invoices, to avail the entity of available discounts?</p>				
	Receiving all invoices from vendors in a central location, such as the accounting department?				
	Procedures ensuring the accounts payable system is properly accounting for unmatched receiving reports and invoices?				
	Review and comparison of contractors' requests for progress payments under long-term contracts to contractors' efforts and results?				
	Procedures for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills, etc.)?				
	Procedures to ensure accurate account distribution of all entries resulting from invoice processing?				
	Maintenance by accounting department of a current list of those authorized to approve expenditures?				
	Procedures for submission and approval of reimbursement to employees for travel and other expenses?				
	Establishment of control by the accounting department over invoices received, before releasing them for departmental approval and other				

	processing?				
	Review and approval of invoices (vouchers) for completeness of supporting documents and required clerical checking by a senior employee?				
	If an invoice is received from a supplier not previously dealt with, taking steps to ascertain the supplier actually exists?				
	Making payments only on the basis of original invoices?				
	Assigning responsibility for ensuring all cash discounts are taken and, if applicable, exemptions from taxes are claimed?				
	Referring differences in invoice and purchase order price, terms, shipping arrangements, or quantities to the purchasing department for review and approval?				
Fixed Assets and Equipment: To ensure the fixed assets and equipment internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	For equipment purchased, is someone in the accounting department responsible for ensuring the item receives a property control tag if required?				
	Are responsibilities for initiating, evaluating, and approving capital expenditures, leases, and maintenance or repair projects adequately segregated from those for expenditure accounting, property records, and general ledger functions?				
	Are responsibilities for initiating capital asset transactions adequately segregated from those for final approval?				
	Are responsibilities for the periodic physical inventories of capital assets assigned to responsible officials having no custodial or record keeping				

	responsibilities?				
Do authorization procedures and controls include the following?					
	Identification of those individuals authorized to initiate capital asset transactions and clear definition of their authority?				
	Guidelines with respect to key consideration, such as prices to be paid, acceptable vendors and terms, asset quality standards?				
Do executive- or legislative-approval procedures include the following?					
	Required written executive or legislative approval for all significant capital asset projects or acquisitions?				
	Procedures for authorizing, approving, and documenting sales or other dispositions of capital assets?				
	Procedures for obtaining grantor approval, if required, for the use of grant funds for capital asset acquisitions?				
	Subjecting grant-funded acquisitions to the same controls as internally funded acquisitions?				
	Requiring supplemental authorizations, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts?				
Do asset accountability procedures and controls include the following?					
	Detailed property records for all significant self-constructed, donated, purchased, or leased assets?				
	Accountability for each asset?				
	Periodic inventory of documents evidencing property rights (i.e.; deeds, leases, etc.)?				
	Physical safeguards over assets?				
	Periodically comparing detailed property records with existing assets?				

	Investigating differences between records and physical counts and adjusting the records to reflect shortages?				
	Ensuring capital assets are adequately insured?				
	Subjecting lease transactions to control procedures similar to those required for other capital expenditures?				
	Properly identifying equipment by numbered tags or other means of positive identification?				
	Carrying fully depreciated assets in the accounting records as a means of providing accounting control?				
	Monitoring the appropriate disposition of property acquired with grant funds?				
	Are work areas safe for employees? System for regular monitoring/checking?				
	Is the inventory up-to-date?				
	Is responsibility for the assets fixed?				
	Is the inventory periodically reviewed and the assets accounted for?				
	Is there a written policy covering use of assets (e.g., computers including internet usage, telephones, and copy machines)?				
	Are adequate procedures in place to facilitate the annual inventory, including procedures to resolve discrepancies in a timely manner?				
	Is IIFC's Management notified of any errors or discrepancies on the equipment inventory report in a timely manner?				
	Established policies and procedures define spending limits and approval procedures for capital expenditures.				
	Subsequent to receipt, fixed asset records are updated. A one-for-one				

	check between the internal and external supporting documents (i.e. invoice) and the fixed asset sub ledger occurs. Any discrepancies are identified and re-entered. The check occurs again for re-entered data.				
	Management performs reasonableness tests of depreciation expense. Results that are outside an expected range are researched and corrected as necessary.				
	Useful lives are determined and assigned to identified intangible assets. The appropriate level of senior management approves lives used. unclear				
	The methods of fixed asset depreciation are formally documented, approved and consistently applied through manual or system processes.				
	Periodic physical counts of fixed assets are compared to the fixed asset register. Differences to the information in the sub ledger/fixed assets ledgers are identified, researched and when applicable, the ledger is corrected.				
	The information needed for fixed asset valuation is formally documented in accordance with policies.				
HR, Personnel and Payroll: To ensure the HR, personnel and payroll procedures are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Are attendance sheet totals recalculated for accuracy and agreed to payroll verifications?				
	Does the person responsible for approving payroll verification know each employee by sight?				
	Is the projection of time worked prohibited (i.e., entering data on attendance sheet before they are actually worked)?				
	Does IIFC avoid hiring or appointing any individual into a role which supervises or is supervised by a relative? (Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister)				

	brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.				
	Are responsibilities for supervision and time-keeping functions adequately segregated from personnel, payroll processing, disbursement, and general ledger functions?				
	Are responsibilities for the payroll processing function adequately segregated from the general ledger function?				
	Is payroll distribution supervised by employees, as follows: a) Who are not responsible for hiring or firing employees? b) Who do not approve time reports? c) Who take no part in payroll preparation?				
	Are responsibilities for initiating payments under employee benefit plans adequately segregated from accounting and general ledger functions?				
Do personnel procedures and controls include the following?					
	Properly authorizing, approving, and documenting all changes in employment (additions and terminations), salary and wage rates, and payroll deductions?				
	Promptly reporting notices of additions, separations, and changes in salaries, wages, and deductions to the payroll processing function?				
	Maintaining appropriate payroll records for accumulated employee benefits (vacation, pension data, sick leave, etc.)? Interviewing, by the personnel department of terminating employees, as a check on departure and as a final review of any termination settlement?				
	Written personnel policies?				

	Establishing controls to ensure payroll costs charged to grants are in compliance with grant agreements?				
Do supervision/time-keeping procedures and controls include the following?					
	Review and approval, by the employee's supervisor,, of days worked and other special benefits?				
	Procedures for time-keeping and attendance records?				
	Review for completeness and for the employee's supervisor's approval of time cards or other time reports?				
	Procedures for authorizing, approving, and recording vacations, holidays, and sick leave and for approving and controlling compensatory time?				
Do payroll processing procedures and controls include the following?					
	Controls over payroll preparation?				
	Provisions to ensure that employees are paid in full and on time every time?				
	Review and approval of completed payroll registers before disbursements are made?				
	Reviews of documents supporting employee benefit payments (such as accumulated vacation or sick leave) before disbursements are made?				
	Review for reasonableness of comparisons (reconciliations) of gross pay for current to prior period payrolls by a knowledgeable person not otherwise involved in payroll processing?				
	Review of the payroll (examination of authorizations for changes noted on reconciliations) by an employee not involved in its preparation?				
	Prohibiting payroll advances to officials and employees, or subjecting them to appropriate review?				
	Are employees required to take annual vacations, and are duties assigned to others in the absence of an employee on vacation?				

	or otherwise absent?				
Do payroll disbursement procedures and controls include the following?					
	If payment is made in cash, requiring signed receipts; and having someone independent of the payroll department compare the signed receipts, on a test basis, with signatures on file?				
	Prohibiting employees from accepting another's pay?				
	Do general ledger procedures and controls include the following: a) Adequate account coding procedures for classification of employee compensation and benefit costs, so such costs are recorded in the proper general ledger account? b) Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs?				
	Are applicants for employment required to complete a detailed application?				
	Are prior work experience and education background verified?				
	Are recommendation/guarantee letters from local elders required for all applicants?				
	Are current and prior employers and references contacted?				
	Are positions filled with the most qualified and competent persons possible?				
	Are employees given a written evaluation at least as frequently as annually?				
	Are only those employees who can do an adequate job retained?				
	Are job duties and responsibilities well defined (i.e., who does what, when, and how)?				
	Is everyone required to take vacations?				
	Is the work of persons on vacation performed by someone else during their absence?				
	Have employees charged with payroll and distribution responsibilities been appropriately trained?				

	Are the duties of approving job actions and approval of time segregated from the duties of distribution of the pay checks?				
	Are time and labor entries approved by the person who has supervisory responsibilities over the persons whose time and/or payment is being approved?				
	Does the payroll processor review the preliminary pay lists to ensure that employees will be paid correctly?				
	Does management review, sign, and date the Final Pay Lists to document that staff are paid according to wage contracts and terminated employees are not paid?				
	Are over or underpayments dealt with promptly?				
	Are payroll distributions properly approved and made timely and accurately?				
	Have procedures been implemented to ensure that overtime and compensatory time hours worked are appropriate and approved in advance by an employee's supervisor?				
	Is appropriate identification and authorization required if pay checks or earning statements are to be provided to individuals other than the employee? Additionally, if the employee is unknown to the pay check distributor, is appropriate identification required before the pay check is released?				
	Are employees adequately trained in all relevant management areas?				
	Are training needs assessed at least as frequently as annually?				
	Is a record kept of training completed?				
	Do employees attend some training at least as frequently as annually?				
	Have employees with HR administrative responsibilities attended training programs that are specific to their roles in the organization?				
	Are hiring practices reflective of the IIFC's non-discrimination policy?				

	Do new employees attend new employee orientation?				
	Are duties relating to processing and approving personnel actions segregated?				
	Are personnel records maintained in accordance with retention schedules and access to confidential records limited to those with a “need to know”?				
	Are performance evaluations submitted on a timely basis with Human Resource Services?				
	Are IIFC’s procedures in place to ensure that leave taken is properly approved and recorded?				
	Are procedures in place to ensure awareness and compliance with the IIFC’s policy for reporting outside employment activities, and any potential conflicts of interest and nepotism?				
	Are terminations of appointments for employees separating from the IIFC processed in a timely manner and the exit checklist reviewed?				
	Overtime/non-standard hours are authorized by supervisor beforehand.				
	A one-for-one check is performed at period end to ensure payroll expense through the reporting period is properly recorded and any accruals, if appropriate, are accurate.				
	All time records are reviewed and approved prior to input, comparing to supporting documentation as appropriate				
	Non-standard hours/overtime are matched against authorized hours by supervisor. Follow up of discrepancies				
	Payroll disbursements and deductions are reconciled with the payroll register (which is reconciled to the general ledger) and actual disbursements.				
	Employee identification and signature is required, where practical, to receive a physical paycheque.				
	Subsidiary records are maintained for participants who are active, retired, or				

	terminated with vested benefits.				
	Does the payroll register list employees paid by: <ul style="list-style-type: none"> • Name • Check number(If applicable) • Gross pay • Withholdings • Net pay 				
	Are attendance records maintained for employees?				
	Are attendance records approved by the employee's supervisor?				
	Are records of vacation, sick leave and compensatory time (if applicable) maintained for employees?				
	Does the employee's record include time accrued, taken, and the available balance?				
	Do employees have personnel files which include documentation concerning: <ul style="list-style-type: none"> • Position reclassifications • Salary rates • Withholding authorizations • Terminations 				
	Do the written personnel and/or payroll records include the following or similar records: <ul style="list-style-type: none"> • An attendance record • Vacation, sick and other excused leave records • Individual payroll record form • Payroll register • Notification concerning appointments terminations, position classifications and salary rates. 				
	Are attendance sheets approved by an employee authorized to approve attendance sheet?				
Investments: To ensure the investments internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments

	Are responsibilities for initiating, evaluating, and approving transactions adequately segregated from those for detail accounting, general ledger, and other related functions?				
	Are responsibilities for initiating transactions adequately segregated from those for final approvals committing IIFC resources?				
	Are responsibilities for monitoring investment market values and performance adequately segregated from those for investment acquisition?				
	Are responsibilities for maintaining detail accounting records adequately segregated from those for general ledger entries?				
Do approval procedures include the following?					
	If applicable, procedures adequate to ensure only investments in permitted categories are acquired?				
	Formal establishment and periodic review of investment policy guidelines?				
	Integration of the investment program with the cash management program and with expenditure requirements?				
	Established authority and responsibility for investment-opportunity evaluation and purchase?				
	Periodic evaluation of the performance of the investment portfolio by persons independent of investment portfolio management activities?				
	Also verification all income due from investments has been received?				
	Formal procedures governing the level and nature of approvals required to purchase or sell an investment?				

Do custody procedures include the following?					
	Adequate physical safeguards and custodial procedures over the following? a) Negotiable and nonnegotiable securities owned? b) Legal documents or agreements evidencing ownership or other rights?				
	Dual signatures or authorizations to obtain release of securities from safekeeping?				
	Authorization, by the BOD, of persons with access to securities?				
	Registering all securities in the name of IIFC?				
Do detail accounting procedures include the following?					
	Maintenance of detail accounting records for investments by the accounting department?				
	Procedures to ensure transactions arising from investments are properly processed, including income and amortization entries, if applicable?				
	A periodic comparison between income received and the amount specified by the terms of the security, or from publicly available investment information?				
	Controls to ensure transactions are recorded on a timely basis?				
Do general ledger procedures include the following?					
	Reconciling the detail accounting records with the general ledger control?				
	Periodic review of the nature of investments included in general ledger balances?				
Revenues and Receivables: To ensure the revenues and receivables internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Are responsibilities for billing for services and fees adequately segregated from those for collection and				

	accounting?				
	Are responsibilities for maintaining detail accounts receivable records adequately segregated from those for collection and general ledger posting?				
	Are responsibilities for collection, control, credit issuance, and deposit of funds activities adequately segregated from those for maintaining accounting records?				
	Are responsibilities for entries in the cash receipts records adequately segregated from those for general ledger entries?				
Grant and Entitlement Monitoring: To ensure the grants internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Has the IIFC properly assigned responsibility for monitoring grant activities?				
	Does the IIFC have a grants monitoring activity?				
Does the IIFC have procedures to monitor compliance with the following:					
	Financial reporting requirements?				
	Use of funds and other conditions in accordance with grant terms?				
	Timely billing of amounts due under grants?				
	Does the IIFC have a system for obtaining grantor approval before incurring expenditures in excess of budgeted amounts or for unbudgeted expenditures?				
	Are processing of grant revenues and disbursements subject to the same degree of controls applicable to the organization's other transactions (budget, purchasing, etc.)?				
	Are reasonable procedures and controls in place to provide assurances of compliance with recipient eligibility requirements established by grants?				
	Do entitlement controls include the following:				

	Comparison of the amount of funds received with the amount anticipated, by a responsible official, and investigation of unusual variances?				
	Procedures to ensure funds received are spent in accordance with legal requirements and spending restrictions?				
Information Technology: To ensure the IT internal controls are adequate to accomplishing the IIFC's objectives.		YES	NO	N/A	Comments
	Are appropriate staff members familiar with the Information Technology Policy?				
	Does a business continuation plan exists which identifies critical activities, backup files, programs, and alternative processing sites?				
	Are system security and application access logs enabled and reviewed periodically?				
	Are backups of operating systems, critical data, and key software programs made on a regular basis and stored at an off-site location? Daily or more frequent backup of all financial data, hard copies kept?				
	Are strong passwords for all production systems (interval change, minimum length, lock out, etc.) in place?				
	Is sensitive and restricted data managed by the IIFC (on networks, personal computers, and back up media), classified and protected by restricted access, encryption, or other controls?				
	Do policies provide for all personnel with a need to access critical applications (mainframe, networks, and personal computers) to have individual accounts and passwords and are they prohibited from sharing those passwords? Does the system maintain records of every time when these applications are				

	accessed and by whom?				
	Are records of all software licensing agreements managed by the IIFC properly maintained?				
	Has the IIFC policy on acceptable use of computer resources been effectively communicated to all employees including new hires?				
	Is antivirus software installed, operating and being updated for all computing resources (laptops, desktops, servers, etc)?				
	Is system administrator access to the production systems restricted and based on need?				

Chapter Eleven

Human Resources Policies and Procedures

POLICY INTRODUCTION

The purpose of this policy is to set standards and rules for the Islamic Investment and Finance Cooperative (IIFC) in relations with its employees.

This policy is developed in compliance with the applicable laws and regulations of the [country name], and IIFC's bylaws.

Employment with the IIFC is at will. Employees have the right to end their work relationship with the IIFC, with advance notice, for any reason. The IIFC has the same right. No representative of the IIFC, other than the CEO or BOD, has the authority to enter into an agreement of employment for any specified period and such agreement must be in writing, signed by the CEO and/or BOD and the employee.

No employee or an individual being considered for employment, transfer, promotion or layoff shall be favored or subjected to discrimination by management because of race, creed, color, disability, national origin, sex, religion, veterans' status, or age.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of its operations and applicable legislative requirements. The BOD shall approve all exceptions to this policy.

EQUAL EMPLOYMENT OPPORTUNITY

The IIFC is dedicated to the principles of equal employment opportunity in any term, condition or privilege of employment. The IIFC does not discriminate against applicants or employees on the basis of age, race, sex, religion, national origin, veteran status, disability or any other status protected by the law. This prohibition includes verbal or physical conduct which has the purpose or effect of substantially interfering with an individual's work performance or creating an intimidating, hostile or offensive work environment. This policy applies to all employees including CEO, supervisors, coworkers, and non-employees such as members, customers, clients, vendors, consultants, etc.

All employees are expected to conduct themselves in a professional and businesslike manner at all times. Inappropriate conduct that could lead to a claim of harassment is expressly prohibited by this policy.

If an employee believes there has been a violation of this policy or harassment based on the protected classes outlined above they should use the following complaint procedure. The IIFC expects employees to make a timely complaint to enable the IIFC to promptly investigate and correct any behavior, which may be in violation of this policy.

The employee should report the incident to the CEO, or to the Chairman of the BOD, who will investigate the matter and take appropriate corrective action. The IIFC will make reasonable efforts to keep complaints confidential.

If the IIFC determines that an employee's behavior is in violation of this policy, appropriate disciplinary action will be taken against the offending employee, up to and including termination of employment.

GENERAL EMPLOYMENT POLICIES

A. REQUIREMENT FOR REFERENCES

In order to prevent theft and fraud at IIFC, each individual staff member currently working for IIFC MUST provide a guarantee letter of a senior ranking government official or a well-known trader or a well – respected person in the community. The guarantors should agree to guarantee the character of the staff members and make the staff available in case he/she runs away, stealing funds or other valuables from IIFC or its members.

B. REQUIREMENT FOR PRE-APPROVAL

The IIFC, through the National Association's regional employees, must obtain the approval of the National Association's CEO for any recruitment of CEO and Accountant positions at the IIFC. The proposal of such positions must always introduce competent, merit-based individuals for approval at least one week prior to the required recruitment date. The proposal sent to National Association's CEO must always be accompanied by a recent résumé of the proposed individual.

Also, the approval of the National Association's CEO must be obtained on any removal and termination of the IIFC CEO or Accountant. A written explanation with full details must be sent by either the IIFC and or the National Association's regional employees one week prior to the termination of such employees. Proposals sent to the National Association for removal of such employees must also be accompanied with a plan to fill such positions both in short and long terms.

C. EMPLOYMENT OF RELATIVES

The IIFC wishes to give any qualified applicant the opportunity for employment with it whether related to present employees or not.

However, certain circumstances are avoided, such as where:

- A person would be in a position to supervise their relative;
- A person would have access to confidential information including payroll and personnel records of their relative; or
- Staff members audit, verify, receive and/or are entrusted with money handled by their relative.

In cases of marriage between two employees, if any of the above situations apply, one or both employees must transfer to a different role, or a different line of supervision or accounting must be instituted.

These guidelines apply to all categories of employment, including full time, part time and temporary classifications.

(Relatives are defined as: grandparent, parent, brother, sister, spouse, son, daughter, grandson, granddaughter, spouse of brother or sister, brother or sister of spouse, spouse of brother or sister of spouse, niece, nephew, uncle, aunt, or first cousin.)

D. HOURS OF WORK, LUNCH AND REST PERIODS

WORK WEEK

The IIFC's standard workweek is from Monday to Friday except regular special holidays and public holidays. Saturday and Sunday, shall be rest days.

HOLIDAYS

The IIFC's employees are entitled to the following paid holidays each year:

Attach – Holidays schedule

Exceptions:

- Employees who are on leave without pay on the day immediately preceding a holiday may not be paid holiday pay if they have not worked on such holiday
- When the day immediately preceding the holiday is a non-working day, an employee shall be entitled to holiday pay if s/he worked on the day immediately preceding the non-working day.
- Employee whose job duties require to work during the holidays should do so (i.e. guards).

WORK HOURS

The standard workweek is 40 hours per week and will be based on the governmental working hours of [the country name].

The CEO may fix a different time schedule of certain employees should the exigencies of the service warrant. It is the employee's responsibility to see to it that their time is reported accurately.

BREAK TIME

LUNCH BREAK: Employees are allowed to take up an hour for lunch.

PRAYER BREAK [in Muslim countries]: Each employee given 10 minutes break during prayer time.

JOB DESCRIPTIONS

Every employee should receive and acknowledge receipt of a) job description upon signing their employment contract with the IIFC. The responsibilities and duties given in a specific job description should not be understood as exhaustive of the responsibilities and duties which the incumbent is expected to perform.

The supervisor on a temporary or permanent basis may assign other duties compatible with those mentioned in the job description. Other duties may be assigned as being "compatible" even if they are not performed by anyone else in that office.

The IIFC has the right to revise job descriptions at any time.

BUSINESS ATTIRE AND DEPARTMENT

The appearance and actions of the employees have a direct bearing on the IIFC's image before the public. As a general rule, the public expects the IIFC to present a professional attitude, one that will give its members a feeling of confidence in the IIFC's ability to handle their financial affairs.

Therefore, the IIFC expects employees to use good taste in these matters by avoiding extremes in dress, hairstyles, and office conduct. Management reserves the right to exclude anything it considers unprofessional. If the employee has any questions about appropriate attire, he/she should contact the supervisor.

ALCOHOL AND DRUGS

The IIFC is committed to a safe, healthy and productive work environment for all employees, free from the effects of illegal or non-prescribed drugs and alcoholic beverages. Use of drugs and alcohol alters employee judgment resulting in increased safety risks, employee injuries, and faulty decision-making. Therefore, the possession, use, or sale of controlled substances or alcohol on IIFC's premises or during work time is strictly prohibited. Furthermore, coming to work under the apparent influence of alcohol, a controlled substance or abuse of any other substance is prohibited.

CASH DRAWER AND TRANSACTION ACCURACY

Employees are expected to maintain a high degree of accuracy in performing transactions and to safeguard their cash drawer. The following employee actions will not be tolerated:

- Taking or "borrowing" money from a cash drawer.
- Mixing of funds in cash drawers eg using cash drawer funds to make personal change
- Any unresolved cash drawer overages or shortages.
- Four or more resolved cash drawer overages or shortages per month.
- Any cash or check transaction inaccuracies amounting cumulatively to US\$ 600.

PERSONAL BUSINESS TRANSACTIONS BY EMPLOYEES

An employee is strictly forbidden to process or approve any transaction for him/her, any family member or on any account in which the employee has a signing authority. This prohibition extends to transactions for someone with whom the employee has a spousal or spouse-like relationship. These transactions include, but are not limited to the following:

- Deposits
- Withdrawals
- Change of information on file through a file maintenance transaction

TRAVEL EXPENSES

- **BUSINESS USE OF PERSONAL VEHICLE**

The CEO must authorize the use of personal vehicles on IIFC's business in advance. Reimbursement will be at the standard automobile rate. Employees must maintain a safe automobile and operate it in accordance with all current state automobile regulations.

- **LODGING, MEALS, and MISCELLANEOUS TRAVEL EXPENSES**

Employees required to travel on IIFC business are entitled to have their reasonable expenses reimbursed to them. Employees should always shop for the best value. All overnight travel arrangements should have prior approval by the CEO. Limits for lodging, meals and miscellaneous travel expenses are approved by the IIFC's management.

- **TRAVEL EXPENSE REIMBURSEMENT**

Employees that are subject to travel expense reimbursement must file an expense report. The IIFC will reimburse travel expenses monthly, or as needed, if the travel expenses are such that they would create an undue financial burden to the employee.

CODE OF CONDUCT

Employees, are prohibited from soliciting for themselves or for a third party (other than this IIFC) anything of value for any business, service or confidential information of the IIFC, and from accepting anything of value (except compensation from this IIFC) in connection with the business of the IIFC either before or after a transaction is discussed or consummated.

Exceptions to the prohibitions above are permitted for:

- Acceptance of meals, refreshments or entertainment, all of reasonable value and in the course of a meeting or other occasion the purpose of which is to hold bona fide business discussions provided that these expenses would otherwise be paid for by the IIFC as a reasonable business expense.
- Acceptance of advertising or promotional material of reasonable value, such as pens, pencils, notes pads, etc.
- Acceptance of discounts or rebates on merchandise or services that do not exceed those available to other members of the IIFC.
- Acceptance of gifts of reasonable value that are related to commonly recognized events such as a promotion, wedding, retirement or holidays.
- Acceptance of civic, charitable, educational or religious organizational awards for recognition of service and accomplishments.

Employees shall not become involved in outside business interests or employments that give rise to a conflict of interest.

The CEO may make exceptions to the Code of Conduct for employees, and the BOD may make exceptions to the Code of Conduct for the CEO.

PERSONNEL RECORDS

A complete personnel file shall be maintained for each employee. The personnel files shall contain all employee records relating to performance evaluations, promotions, grievances, disciplinary actions and record of training offered to or completed by the employee.

Upon written request, an employee shall have the opportunity to review his/her personnel file. A supervisor shall be present during the review.

SALARY ADMINISTRATION

- **CLASSIFICATION OF EMPLOYEES**

Wages are based on the job description for the type of work performed. For a guideline, wage ranges are set using the average wage rates for this type of work paid in the Province. Wages at time

of hire are negotiated based upon overall employee qualifications, which include: skill, education, background experience, and formal training. The CEO has the ability to negotiate employee wages, so long as the total wage budget set by the BOD is not exceeded.

- **REGULAR FULL TIME EMPLOYEES**

Employees hired to work 35 - 40 or more hours per week. They are eligible for the IIFC's various benefits as described.

- **SCHEDULED PART TIME EMPLOYEES**

Employees scheduled to work a regular weekly schedule of at least 20 hours and not more than 34. The specific days and number of hours ordinarily do not vary from one week to another. They are eligible for the IIFC's various benefits as described.

- **NON-SCHEDULED HOURLY EMPLOYEES**

Those who have no fixed weekly schedule and normally work 19 hours or less per week. Hourly employees are not entitled to participate in the IIFC's benefit program.

- **TEMPORARY EMPLOYEES**

Temporary employees may be hired on an as needed basis. Temporary employees do not participate in the IIFC's benefit program.

- **STATUS CHANGES**

Personnel who go from part time to full time or full time to part time shall have their annual leave accrual, and/or other benefits as they may apply, adjusted effective the date of status change, but not so as to affect any leave or other benefits already accrued.

- **OVERTIME PAYMENT**

An employee can be eligible for overtime pay. The IIFC's employees are eligible for overtime at one and one-half times their regular rate of pay for all hours worked in excess of forty hours per workweek. Overtime work is discouraged. However, when it is necessary, either the CEO or the employee's immediate supervisor must approve it in advance in accordance with the available budget.

- **PAYMENT OF WAGES**

The standard paydays for full time employees are the 15th and the last day of the month and include compensation through the payday for salaried employees. Salary advances to employees are prohibited, unless the employee is in a genuine need and is approved by the BOD.

If the employee has authorized deductions these will be reflected in the employee's net pay.

In addition, by law, the IIFC is required to make withholdings from wages for Income Tax and Social Security.

- **SALARY CHANGES**

The BOD will review the CEO's salary annually. The CEO will be absent from the board meeting while the salary is reviewed. The CEO and/or the employee's direct supervisor shall recommend any salary change for the remainder of the staff.

- **BONUS/INCENTIVE PROGRAMS**

The BOD may approve bonus and incentive programs or other compensation programs, as they deem appropriate.

- **PERFORMANCE APPRAISAL**

Performance appraisal is the process which provides the employee feedback on their performance. How well you do your job is an important factor in determining your merit increase. The IIFC endeavors to conduct annual reviews of each employee's performance. If more than one year has passed since the last appraisal, the employee is encouraged to advise his/her supervisor of this fact.

EMPLOYEE BENEFITS

The IIFC's benefit program includes the following:

- Paid Holidays
- Paid Annual Leave (Vacation, Essential and Sick Leave)
- Educational Programs

- **PAID HOLIDAYS**

At least six paid holidays a year are provided for full time and scheduled part time employees. They include all official holidays declared by the government of the [country name]. Non-scheduled hourly and temporary employees are not paid for time off. A holiday falling during a non-paid leave of absence is not paid.

- **SCHEDULING ANNUAL LEAVE**

This is the responsibility of the IIFC to prepare the annual recreational leave schedule for the employees on a turn basis. Seniority is recognized in the initial choice of vacation dates - seniority by position and then by length of service among employees holding the same level position. Full time status does not of itself give scheduling preference over part time status.

The CEO and/or the employee's immediate supervisor shall approve all annual leave in advance. The Chairman of the Board shall approve the CEO's annual leave. Vacations may usually be scheduled during any month of the year. However, due to the requirements of the work schedule certain periods during the year may not be available for vacation. These will vary by department.

- **ANNUAL RECREATIONAL LEAVE**

Annual leave (recreational, sick and necessary and urgent) is not included in the general and public leave days.

Employees are entitled to 20 successive days of paid recreational leave per year. This is transferable to the following year on the basis of any urgent requirement of the IIFC subject to the agreement of the employee. Employees may utilize the annual recreational leave in turn based on a schedule prepared by the IIFC in consultation with the employee. The employee may utilize up to a total of ten days of his/her accrued recreational leave based on urgent requirements in any six month period.

Employees accrue their 20 days' annual leave during the year (i.e. at the rate of 1.66 days per month). During his/her first year of service, a newly recruited employee accrues leave at that rate but is not be entitled to take recreational leave until he/she has served in the IIFC for eleven consecutive months.

The IIFC is duty bound to pay the wage and other allowances of the employees in advance for their recreational leave period. If the employee has not utilized the whole or a part of the recreational leave and is separated or transferred from the IIFC, he is be entitled to the wage pertaining to the unused leave in proportion to the period of work done during the year.

- **ESSENTIAL LEAVE**

In addition to annual recreational leave, employees are entitled to up to ten days' essential leave with pay every year. Urgent leave in periods not exceeding three days can be utilized through sending a notice. For longer periods a written request must be submitted for approval.

Employees are entitled to (up to 10) days of urgent leave in the following cases:

1- Marriage,

2- Death of Father, Mother, brother, Sister, spouse, son, father in law, mother in law, uncle, aunt and birth of a new baby.

- **SICK LEAVE**

Employees are entitled to 20 days of sick leave with pay and other allowances per year. The employee's sick leave for up to three days can be granted on the basis of a written notice. If the employee's sickness lasts for more than three consecutive days, then a certificate of the medical doctor of the health institute and, in places without physicians, the certificate of the village headman or Province, will be considered as valid certificates. In case the employee requires more than 20 days of sick leave, he/she may utilize of his other leaves as well.

If the employee's sickness lasts for longer than the period mentioned above, additional paid leave can be granted to him/her if a certificate of the competent governmental and or non-governmental health center is produced.

- **MATERNITY LEAVE**

A female employee is entitled to 90 days of paid maternity leave. Thirty days of this leave is granted to her before delivery and the rest (sixty days) is granted to her after delivery. In case of an abnormal type of delivery; or the birth of twins or multiple births, 15 days' more paid leave will be granted to her. Salary and other supplementary allowances will be extended to her on the receipt of valid certificates issued by the relevant hospitals.

After the completion of the maternity leave, the staff member has to report to duty within five days. If she fails to do so, she will not be entitled to the salary and supplementary allowances.

- **LEAVE FOR HAJJ PILGRIMAGE [Muslim Countries]**

Each employee is entitled to 45 days' paid leave only once during their entire service period in order to perform Hajj (Mecca) rites or to make pilgrimages to the sacred places. The days in excess of 45 days earmarked for Hajj and pilgrimage of sacred places can be considered as part of the employee's recreational and urgent leave.

Where an employee uses the Hajj pilgrimage paid leave, he/she must present valid certification issued by the Department of Hajj and Religious Affairs for the release of salary and other supplementary allowances during such period.

Access to Hajj pilgrimage paid leave shall be at business convenience and on a roster basis with leave being available to longer-serving employees first.

VARIOUS TYPES OF LEAVE FOR NEWLY RECRUITED EMPLOYEES

- During the first 6 months of their employment with the IIFC, an employee is only entitled to take up to 50% of the annual sick and or essential leave entitlement. Thereafter the normal entitlement applies.
- An employee is not entitled to maternity leave during the first twelve months of their employment with the IIFC.
- An employee is not entitled to take Hajj Pilgrimage leave during the first twelve months of their employment with the IIFC.

• EDUCATIONAL PROGRAMS

The IIFC's aim is to provide opportunities for directors, elected committees, management and staff to attend meetings, conferences and other educational sessions that provide desired training, improve their depth of understanding in technical areas, or share ideas helpful to the development or operation of the IIFC. The IIFC may pay the necessary training costs and/or provide managerial and staff training time. The CEO, for scheduling conflicts, appropriateness, timeliness, and budgetary reasons, must approve all employee classes.

ELIGIBILITY

All regular employees are eligible for educational programs except the following:

- Hourly employees with less than one year of service.
- Full time employees who have not completed their initial 3 months of employment.

Directors and elected committee members are eligible for educational programs.

IN- SERVICE EDUCATION

The CEO shall prepare a program of training, including induction training and on-going refresher training, to ensure that each member of staff is equipped with the skills and knowledge required for the proper fulfillment of their respective roles and to comply with any legislative or other external requirements for knowledge and skill sets pertinent to their respective roles.

In addition, the CEO may prepare a program for the development of permanent staff, both managerial and non-managerial, in order that each may have opportunity to develop optimum skills for his/her position. The IIFC may conduct in-service professional short and long term training courses individually and in groups to improve the professional levels of the employees, get them experienced and develop their work related skills with a view to assisting them to develop into new roles within the IIFC. These in-service training programs are eligible for all employees.

AUTHORIZATION

The BOD shall authorize expenditures for training for the Board, elected committee members and the CEO. The CEO shall authorize expenditures for training for the staff.

• EMPLOYEE FINANCIAL ADVANCES

Employee ICFs are available at market rates in accordance with the IIFC's ICF policy.

- **WORKERS' COMPENSATION**

In the event an employee is injured on the job, he/she may be entitled to benefits under the provisions of the Labor Code and other applicable legislative acts. In accordance with the precepts of the law, the IIFC, like all employers, provides these benefits.

ATTENDANCE AND TIME OFF

- **TIME RECORD**

The Accountant has the responsibility of keeping regular employee's time records. This record serves three (3) purposes: to calculate pay, to keep track of the total working hours and to track leave usage.

- All personnel shall record work attendance by registering in their individual Time Card. It is the employee's responsibility to see to it that their time is reported accurately.
- The CEO must certify its correctness before the Time Card goes to accounting section for payroll computation. False entries shall be dealt with accordingly.

- **ATTENDANCE**

If an employee is unable to report for work, he/she must personally notify his/her immediate supervisor by phone as early as possible and in no case later than his/her starting time. Failure to do so will not be tolerated.

When working hours begin, the employee should not only be in the office, but should already be at his/her position ready to commence work without delay. Tardiness on three or more occasions in a given month is automatically considered excessive even if the tardiness amounts to only a minute or two on the average. Excessive tardiness will not be tolerated.

In the event of illness or inability to report to work

- Employees must notify their supervisor prior to and not later than their scheduled reporting time.
- The supervisor may request a daily report and a medical certificate regarding the absence.
- If the absence is for a prolonged period, the employee must keep his/her supervisor informed of the developments affecting his/her absence.
- Failure to report an absence from work may result to disciplinary action that may include termination of employment, unless such failure to report on duty is beyond the employee's control.

Absence from work station

- If absence is unavoidable but justifiable, the employee shall inform the supervisor of inability to report for work not later than 10:00 a.m. to allow work adjustments.
- Failure to notify the supervisor and present a justifiable reason shall render the absence unexcused.
- Excuse absences shall be taken against the employee's leave credits.
- Unexcused absences shall be taken against the employee in the following manner:

- Shall be deducted from the employee's salary every payday.
- Shall be reflected in the periodic Performance Appraisal and shall affect the employee's chance for rewards and recognition.
- Shall be taken as grounds for disciplinary action.

Inclement Weather or Security Warnings

- If because of extreme weather or security warnings the employee is unable to travel to work s/he may opt to take the day without pay or as a vacation day.
- If the IIFC is unable to open, opens on a delayed basis, or closes early due to inclement weather or security warnings, all employees will be notified. Time lost under these circumstances may be paid if the employee was regularly scheduled to work.
- Those employees that report to work on a day when management makes the decision to open late or close early will get a full-day's pay.

● PUNCTUALITY

Punctuality is not only limited to reporting on time, but also includes starting work at the expected hour and with the proper observance of work breaks. It also means getting the work done with deadlines set by the CEO or BOD.

An employee who arrives any time after his/her official reporting time shall be considered tardy. The IIFC understands that occasionally, situations may arise in which an employee needs to be late for personal reasons. Employees are allowed to be late in such cases, provided that they have obtained prior approval from their direct supervisor.

HABITUAL TARDINESS is committed, if an employee is late for ten (10) times in a month. Employees who commit habitual tardiness will be subjected to disciplinary action. Tardiness records of the employee are entered into his/her personal file and are given due weight in the performance appraisal.

● ATTENDING TO PERSONAL MATTERS DURING OFFICE HOURS

- Employee leaving the office for personal business: permission should be first obtained from the direct supervisor as to the expected time of leaving and return, purpose and intended whereabouts.
- Permission to leave work during office hours shall be granted only for very urgent reasons.
- Time spent for personal matters in excess of One hundred Twenty (120) minutes shall be considered under-time and shall be deducted from salary.
- UNDERTIME
- Employees are not allowed to leave their post earlier than the regular off time. Except for emergency reasons, employees should request under-time from the Supervisor/CEO before leaving the office.
- Unapproved under-time will be subjected to disciplinary action.

● LEAVE OF ABSENCE

Leave of absence consists of pre-approved voluntary time off without pay. Where leave of absence is granted for a period of one week or less, the employee may return to their role within the IIFC. After longer periods of leave of absence the IIFC may reinstate an employee to employment when in the opinion of the IIFC it is practical to do so, but the IIFC does not guarantee reinstatement of an employee to the former role. When the employee is available to return to work, the employee is free to apply for any vacancy available and may be considered along with other applicants. The IIFC will not continue medical and other insurance benefits for an employee on leave of absence. Holidays and annual leave will not continue to accrue.

A leave of absence is granted for a specific period of time up to three months. It may be extended at the request of the employee, subject to management's discretion.

A request for a leave of absence must be made in writing and in advance of the leave. The CEO must approve leave of absence. The BOD must approve leave of absence for the CEO.

TERMINATION OF EMPLOYMENT

The essential instances for the termination of the work contract are as follows:

- Agreement of the both parties.
- Completing the particular employment contract.
- Retirement.
- Death.
- Disability or incapacity that will render the employee unable satisfactorily to perform the jobs.
- Cessation of work for more than six months (except in accordance with leave entitlements).
- Dissolution of the IIFC or reduction in the number of the staff.
- Final conviction to prevent work continuation.
- Repeated breach of rules after disciplinary warnings.
- If the worker refuses his assignment to his previous job.
- If the probationary period has not been satisfactory.

In cases where the employment contract is terminated, it is the IIFC's responsibility to pay any accrued worker salary and other allowances. If he/she passes away, it should be paid to his/her legal inheritor. In case the work contract is terminated at the initiative of the IIFC, this is the responsibility of the IIFC to inform the worker within a month.

NOTIFICATION TO TERMINATE THE CONTRACT

A worker can terminate the non-fixed term employment contract with a one-month written notice to the IIFC. Before the contract expires, an employee can annul the fixed term employment contract with or without notice in the following cases:

- Breach by the IIFC in fulfilling the obligations set forth in the work contract or breach in the rules of this policy and applicable legislation.
- In case the employee has a prolonged and incurable disease or disability that will render them unable satisfactorily to perform their jobs.

LABOR RULES AND STANDARDS

- **LABOR DISCIPLINE IMPLEMENTATION METHODS**

Employees are required to observe discipline in the institution. Labor discipline is ensured through the following ways:

- Labor discipline in the IIFC is maintained and safeguarded through establishing conscious relations and attitudes among employees toward their work.
- Observation and complete application of methods for understanding employee concerns and engendering satisfaction among employees.
- Encouraging employees to work honestly.
- Application of disciplinary actions in case of violations.

- **RESPONSIBILITIES OF THE IIFC**

Sound management of work is the IIFC' responsibility in the following areas:

- Create favorable conditions to improve the level of feedback from employees
Ensure the application of labor and production discipline.
- Ensure labor security and safety at work.
- Interact responsibly to the needs and demands of the employees.
- Application of legislative requirements regarding labor, conditions, workplace safety etc.

- **OBLIGATIONS OF THE EMPLOYEE**

The employee is bound to pursue the following:

- Satisfy the requirements of their Job Description.
- Productive and honest work.
- Job discipline.
- Timely execution of legal orders and instructions of supervising authorities.
- Improve work output.
- Improve output quality.
- Service and Technology discipline.
- Safety rules and working environment hygiene.
- Protection of fixed and non-fixed assets of the IIFC, and their efficient and rational utilization.
- Improve professional skills and using standards defined by responsible authorities.
- Protect job and profession secrets.
- Sound attitude with other employees and member- clients.
- Avoid disturbing other employees in performing duties and service lines.
- Be familiar with an observe IIFC rules including, but not limited to, rules for the handling of cash and valuable assets, rules for attendance and punctuality, rules for the use of IIFC IT systems and other equipment, rules and requirements for appropriate behavior in the workplace.

- **JOB DESCRIPTIONS**

- The work method is regulated through Job Descriptions prepared and approved by management.
- The IIFC is required to familiarize the employees with JDs of the IIFC, and ensure their implementation.

- **STAFF REWARDS**

In return for performing work in the best possible way, raising work output, improving the quality of products, saving materials, using initiative and innovation in work performance and winning competitions at work, employees may be encouraged and rewarded in the following ways:

- Reward in cash or material;
- Granting a letter of acclamation;
- Granting a letter of appreciation;
- Granting a medal or a title;
- Granting other rewards as described in the relevant legislative documents;

The conditions and way of rewarding the staff shall be determined by the IIFC's management.

- **PUNISHMENT OF STAFF**

Hopefully, it will not be necessary to discipline or discharge employees. There may be times, however, when it becomes necessary to formally correct the performance of individuals and, in some cases, to terminate the employment relationship.

The IIFC may impose counseling or disciplinary action including termination whichever, in its judgment, most effectively resolves the problem. Any action taken by management in an individual case should not be assumed to establish a precedent in other circumstances.

The IIFC's management will take recourse to the following punitive measures, as the case may be, when the employees violate labor discipline rules:

- Advice or suggestion.
- Warning;
- Deduction of subsistence expenses (wage);
- Transform of position
- Termination of labor contract.

- **IMPLEMENTATION OF DISCIPLINARY ACTION**

When the IIFC applies and imposes the punitive measures, it shall bear in mind the circumstances, under which violations have been committed, the situation of the person when resorting to violation as well as the worker's service record, conduct and behavior.

- Disciplinary action against the employee shall be implemented after explanation of his/her violation in accordance with law.
- Only one punitive measure can be applied in each case of violation against labor discipline; the measure will be issued in writing, and after being registered, it will be formally brought to the notice of the offender.

Reward and punishment mentioned in this policy, except advices and suggestions, are recorded in Employee Record File.

It shall be the responsibility of management to ensure that any unsatisfactory performance or behavior by an employee is brought to their attention in good time so that they are given an

opportunity to improve. Management will also make appropriate coaching available to employees in such a situation. However, in a case of serious breach of rules, dishonesty, violence or other intolerable behavior, the IIFC may summarily dismiss an employee, having first given them an opportunity to answer the allegations against them. A decision to summarily dismiss an employee may only be taken by the CEO or acting CEO and shall be reported to the BOD at its next meeting.

- **FINANCIAL RESPONSIBILITY OF EMPLOYEES**

All employees are obliged to assume a responsible attitude toward the property and assets of the IIFC and to take measures to prevent damage from being occasioned to them..

The CEO is obliged to ensure that working conditions for employees are satisfactory and to ensure full protection of assets used by employees.

An employee will be held responsible for damage sustained by the IIFC during the work period only when the damage inflicted has been the result of the employee's own offence.

Employees will not be held responsible for damage arising from the ordinary progress of work.

If the damage sustained by the IIFC is due to the offence of several employees, then the amount of compensation therefore will be determined separately for each worker and in proportion to the type and degree of his responsibility.

PROBLEM SOLVING

If the employee has a problem concerning a work-related matter, s/he should discuss it frankly with his/her immediate supervisor or the IIFC's CEO. Normally, this discussion should occur within 3-5 days of the incident, or on a timely basis. Discussions held in a timely manner will enhance the IIFC's management ability to resolve concerns while they are still fresh in everyone's mind. If the employee is not satisfied after discussing the problem with his/her supervisor, or if it is inappropriate to go to his/her supervisor, then employees are encouraged to go to the CEO. If the problem still cannot be resolved, employees may submit a written complaint or explanation of the problem/concern to the BOD for review and final decision about the situation.

INSPECTION

To safeguard the property of employees, the members and the IIFC, and to help prevent the possession, sale and use of illegal drugs on IIFC's premises, entry into the IIFC's premises may be subject to searches or inspections.

This process includes the inspection of items such as packages, parcels, purses, handbags, briefcases, lunch boxes or other possessions or articles carried to and from IIFC's property. If the employee has personal items, which s/he would not like, subjected to such inspection, these items should not be brought onto IIFC's premises. In addition, the IIFC reserves the right to search IIFC property that is used by the employees, such as, an employee's locker, office, desk, computer, e-mail, voice-mail, and Internet files. Inspections may be conducted at any time at the discretion of the IIFC's management.

The IIFC initiated search does not necessarily imply an accusation of a theft or that an employee has broken a rule. Employees refusing to cooperate with or submit to a search will be subject to termination. Any such search will be carried out with the employee's knowledge and they will have a right to be present during the search and to have an independent witness present as well.

APPENDIX 1

SAMPLE JOB DESCRIPTIONS FOR CEO

POSITION TITLE: CHIEF EXECUTIVE OFFICER of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: BOD of the IIFC

Supervises: All executive staff of the IIFC.

2. PRIMARY DUTIES & RESPONSIBILITIES

The CEO is responsible and accountable for the overall direction and administration of programs and services provided by the IIFC; ensures that all aspects of the IIFC's activities obtain maximum profits commensurate with the best interest of members, partners, employees, and the public. Provides the highest level of member relations and service; and ensures compliance with IIFC's policies and procedures. The position of the CEO is directly responsible for attaining all established IIFC's operational and financial goals.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- Responsible and accountable for the IIFC's daily operations, implementation of the approved written policies and procedures, achievement of the business and strategic plan targets, and the overall protection of the IIFC's assets.
- Responsible for the IIFC's compliance with the accounting and reporting requirements.
- Responsible for the compliance with requirements for the maintenance of documents.
- Represents IIFC's interests in the [country name] and other countries as needed.
- Responsible for hiring and training of new staff
- Responsible for motivating and training of staff to keep up with a high standard and positively deal with member requests and complaints
- Responsible for supervision of staff according to overall IIFC policy
- Responsible for setting employee goals and objectives
- Responsible for development of staff to maximize potential
- Responsible for regular monitoring of staff performance

- Responsible for monitoring of and assistance to staff with work progress
- Responsible for establishment and maintenance controls to ensure the full protection of the members' funds and IIFC's assets
- Responsible for drafting/developing IIFC's policies and practices
- Responsible for implementation of procedures and systems to maximize operating efficiency
- Responsible for co-ordination of financial and budget activities for maximum operational efficiency
- Responsible for control and facilitation of the preparation and analysis of performance reports
- Review performance data (financial and operational reports) to monitor and measure performance, goal progress and operations quality
- Responsible for interaction with the local public and government organizations, development agencies, and etc
- Must be involved with business planning and draft/develop the IIFC's policies by regularly following the different changes in the financial regulations
- Responsible for evaluation of the profitability of the various plans formulated by different IIFC's departments and discusses them with the BOD
- Responsible for analysis and distribution of strategic goals and budgets to different programs and departments
- Must ensure that the financial strategies are followed, the operations are cost effective and the revenues are maintained
- Has to endorse membership application to the BOD for approval
- Has to endorse withdrawal of membership to the BOD for approval
- Has to approve the opening and closing of member accounts
- Has to endorse all ICF application for the approval of the Credit Committee
- Has to approve the cash advances to staff.
- Has to approve all cash disbursements
- Responsible for one of the combinations on the vault and safe and has to ensure correctness & accuracy of the cash in vault per record & actual cash balance on a daily basis
- Has to ensure compliance to the computerize accounting systems & procedures, including generation of daily MIS reports for monitoring and daily back-up of computerized systems & records.

- Recommends to the BOD the acquisition of Fixed Assets and ensures the maintenance of the Fixed Assets of the IIFC
- Responsible for the overall safety and security measures of the IIFC
- Has to regularly monitor & evaluate daily operations as against targets & plans.
- Has to ensure that IIFC's by-laws, policies, BOD meeting minutes, contracts, mortgagee's documents, office forms are properly kept and available anytime
- Has to comply with all other duties & responsibilities that maybe required of him/her from time to time.

4. RIGHTS AND AUTHORITIES

In order to fulfil above stated responsibilities CEO has the following rights:

- Has the right to act on behalf of the IIFC without power of attorney, issue administrative orders and directions compulsory for all IIFC's employees.
- Has the right to attend the BOD meetings with advisory vote.
- Has the right to hire and terminate employment of the IIFC's employees.
- Has the right to independently make decisions on operations of the IIFC except for those included in the authority of the members general meeting and BOD based on the legislative requirements, IIFC's bylaws and internal policies.
- Has the right to manage the assets and property of the IIFC.
- Has the right to conclude agreements on behalf of the IIFC.
- Has the right to issue authorizations and open current and other accounts in banks and other financial institutions.
- Has the right to determine staffing requirements
- Has the right to delegate work duties to staff
- Has the right allocate use of available resources
- Has the right to organize and manage business meetings
- Has other rights as stated in the legislative documents, the IIFC's bylaws and internal policies

5. EDUCATION AND EXPERIENCE

- University/High school degree
- At least three years' experience in finance or relevant area
- Knowledge of business and management principles and practices
- Knowledge of strategic planning

- Knowledge of human resource management principles and procedures
- Knowledge of basic economic and accounting principles and practices
- Knowledge of office administrative procedures
- Proficient in relevant software applications

6. KEY COMPETENCES

- Needs to have exceptional leadership skills as s/he has to motivate the entire IIFC and lead by setting an example her/himself
- Should have presence of mind and have quick decision-making abilities
- Must have good communication and networking skills and needs to impart instructions smoothly to the subordinates
- Needs to be a man/woman of integrity and should be honest in dealings without misusing his/her power
- Must be organized, be able to keep calm in high pressure situations, and be able to work under pressure and do overtime when necessary
- As s/he may have to deal with irate members/partners, in such cases need to be cordial with them and help them understand the various rules
- Must possess decision-making ability
- Must be aware of the latest rules and follow government regulations during the development and/or recommendation of IIFC’s internal policies
- Must be very good with numbers
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

APPENDIX 2

SAMPLE JOB DESCRIPTIONS FOR ACCOUNTANT

POSITION TITLE: Accountant of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: Accounting staff, cashier, tellers the IIFC.

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for applying accounting principles and procedures analysing financial information, maintaining accurate and reliable books of accounts, preparation of accurate and timely financial reports and statements and ensure appropriate accounting control procedures.

3. SPECIFIC DUTIES & RESPONSIBILITIES

Compile and analyse financial information to prepare financial statements including monthly and annual accounts, ensure financial records are maintained in compliance with acceptance policies and procedures.

- Ensure all financial reporting deadlines are met
- Prepare financial management reports
- Ensure accurate and timely monthly, quarterly and year end close
- Establish and monitor the implementation and maintenance of accounting control procedures
- Resolve accounting discrepancies and irregularities
- Continuous management and support of budget and forecast activities
- Monitor and support taxation issues
- Develop and maintain financial data bases
- Financial audit preparation and coordinate the audit process
- Ensure accurate and appropriate recording and analysis of revenues and expenses
- Analyse and advise on business operations including revenue and expenditure trends, financial commitments and future revenues
- Analyse financial information to recommend or develop efficient use of resources and procedures, provide strategic recommendations and maintain solutions to business and financial problems

- Ensure the start of day/end of day procedures in the computerized accounting system
- Ensure that the cash in vault per record reconciles with the actual/physical cash, conduct cash count daily.
- Ensure that all daily transactions are entered correctly in the computerized accounting system.
- Generate daily transaction report (list) and reconcile with the source (supporting) documents (contracts, official receipts, cash vouchers, etc.), make the adjustments/corrections if necessary based on the CEO/s approval.
- Generate daily reports, including: Daily Transaction Listing, Daily trial balance, Daily Cash Count Sheet, other end of day required reports.
- Control timely and full completeness of the Daily Time Sheet for all employees.
- Prepare payroll sheet and other documents required for salary and benefit payments to employees.
- Prepare Cash Disbursement Vouchers (CDV) and ensures that all disbursements have the required supporting documents.
- Prepare Journal Vouchers for any non-cash transactions and adjusting journal entries
- Ensure that the IIFC's property is properly maintained and safely kept.
- Perform other tasks as may be required by the CEO.

4. EDUCATION AND EXPERIENCE

- Accounting degree or equivalent
- Knowledge of accepted accounting practices and principles
- Knowledge of economic principles
- Knowledge of auditing practices and principles
- Knowledge of applicable laws, codes and regulations
- Knowledge and experience of related computer applications
- Usually a minimum of 3 years' experience in the management of financial systems and budgets, financial reporting, financial data analysis, auditing, taxation and providing financial advice

5. KEY COMPETENCES

- Attention to detail and accuracy

- Planning and organizing skills
- Strong communication skills
- Information and task monitoring
- Problem analysis
- Judgment and problem-solving
- Supervisory skills
- Stress tolerance
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

APPENDIX 3

SAMPLE JOB DESCRIPTIONS FOR CASHIER

POSITION TITLE: Cashier of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: Accountant of the IIFC

Supervises: Tellers (if any)

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for accurate and efficient processing and recording of the IIFC's cash transactions including accepting deposits and withdrawals, processing ICF payments and disbursements, other cash payments. The IIFC cashier undertakes transactions and interacts directly with members. S/he is like the frontline of the IIFC operations as s/he is usually the first employee that the member or potential member sees at the IIFC. S/he should promote and advise on the IIFC's products and services. S/he is also most likely to detect fraudulent transactions and help prevent losses at the IIFC.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- Receive and count cash at beginning of day and/or shift
- Issue official receipts after every disbursement or receipt of cash and correctly identify and enter transaction in the cash book
- Accurately count every cash disbursement or receipt
- Inspect (validate) all cash receipts in order to prevent for false bills and coins
- Open new accounts for members based on the sources documents properly authorized by the CEO and chief Accountant
- Identify member-customers, validate disbursement vouchers and disburse cash
- Accept cash and deposits and check accuracy of deposit slips (vouchers)
- Process all cash withdrawals
- Receive and verify ICF payments
- Record all transactions promptly, accurately and in compliance with the IIFC's policies and procedures
- Balance cash in cash drawer at end of each day/shift
- Prepare daily cash position report & conducts cash count in the presence of the Accountant or CEO
- Deposit all cash collection for the day to the bank

- Generate following daily reports: Daily Cash Position Report, Teller's Cash Summary Report
- Answer inquiries regarding savings and ICF accounts and other IIFC's related products
- Attempt to resolve issues and problems with member's accounts
- Explain, advise on and promote IIFC's products and services to members and potential members
- Prepares the documents in relation to all cash transactions processed
- Act as custodian of the inner grill key or cash vault combination
- Perform other tasks as may be required by the Accountant and CEO.

4. **EDUCATION AND EXPERIENCE**

- School diploma or equivalent
- Some clerical, administrative, cash handling, sales or customer service experience preferred
- Knowledge of customer service principles
- Relevant computer skills
- On-the-job training must be provided

5. **KEY COMPETENCES**

- Strong numerical ability
- Good listening and communication skills
- Member service orientation
- Accuracy and attention to detail
- Problem solving
- Honesty and integrity
- Judgment
- Stress tolerance
- Adaptability
- Must be discreet and understand the importance of information confidentiality
- Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee)

Date: _____

Signature _____

APPENDIX 4

SAMPLE JOB DESCRIPTIONS FOR MDO

POSITION TITLE: Membership Development Officer of the Islamic Investment and Finance Cooperative.

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: None

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for recruiting new members and developing and/or strengthening the participation of the existing members to the activities and affairs of the IIFC.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- promote the IIFC's products and services within the members and potential members
- fix the schedule of Pre-Membership Education Seminars (PMES) or Membership Orientations and coordinate with the CEO
- conduct the PMES
- initiate activities and programs that will enhance membership participation and patronage to the products and services of the IIFC
- conduct ICF orientation
- conduct initial screening of prospective members
- endorse to the CEO applications for membership for the further approval of the BOD
- prepare the list of newly accepted members for the month
- Conduct exit interviews of members to find out the reasons for withdrawal and if possible persuade them to continue their membership. The interview must be documented.
- endorse to the CEO applications for membership withdrawal for the further approval by the BOD
- Prepare a list of withdrawn members for the month.
- initiate programs, mechanisms, and activities that will ensure member satisfaction
- perform PR functions on behalf of the IIFC to members and partners

- perform marketing duties for the general programs, services and products of the IIFC
- conduct membership and market research for business planning activities
- Perform other tasks as may be required by the CEO.

4. EDUCATION AND EXPERIENCE

- School diploma or equivalent
- Some experience in promotion, public relations and marketing preferred
- Knowledge of customer service principles
- Knowledge of marketing research procedures
- Excellent computer skills
- On-the-job training must be provided

5. KEY COMPETENCES

- Member service orientation
- Good motivator with commendable interpersonal skills.
- Good presentation skills, both verbal and written
- Good listening and communication skills
- Ability to work under pressure and meet the deadlines
- Problem solving
- Honesty and integrity
- Judgment
- Stress tolerance
- Adaptability
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee)

Date: _____

Signature _____

APPENDIX 5

SAMPLE JOB DESCRIPTIONS FOR COLLECTION OFFICER

POSITION TITLE: Islamic Compliant Financing Collection Officer of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: Collection Assistants (if any)

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for the timely collection of ICF scheduled payments from member/borrowers under his/her responsibility. The Collection Officer is responsible for performing loss mitigation and recovery activities regarding delinquent or charged-off accounts in accordance with the IIFC's and legal guidelines, including related state regulations. This position is typically aligned with the routine outbound collections calling process and frequently requires guidance on non-routine situations; ensures attainment of individual, department and the IIFC wide goals to minimize loss and enhance loss recovery; performs collection activities for various ICF products, utilizing various systems and methods; participates in the early, mid or late stages of the collection process to include loss mitigation, foreclosures, repossessions, pre charge-off, charge-off, recovery, bankruptcy and court collections. The position has a direct and important impact regarding the mitigation and recovery of the IIFC's losses. Performs a variety of routine daily tasks; reviews reports, prepares correspondence; participates in special projects.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- Conduct ICF utilization check and document progress of members projects or businesses
- Confer with CEO on the list of amortization falling due for the month
- Administer personal and business ICF collection efforts to which assigned.
- Ensure that ICF collection policies and procedures are complied with according to established guidelines
- Evaluate and review ICF restructuring and present recommendation of payment rescheduling to higher management for approval
- Coordinate with the IIFC lawyer or legal department for collection efforts.
- See to it that reminder and/or collection letters are sent to members on time and coordinate with the CEO, ICF Committee Members & Legitimate Local Authorities for collection efforts
- Prepare & deliver reminders/collection letters

- Coordinate with Legitimate Local Authorities in sending reminders/collection letters to member-borrowers living in their village
- Inform Legitimate Local Authorities and keep them updated on the delinquent borrowers and their status
- Inform co-maker or guarantor of any delinquent by the borrower
- If deemed necessary and possible refer to the governor the names of delinquent borrowers
- Contact member- borrowers who have delinquent accounts for obtaining full payment or negotiate repayment options.
- Visit members/borrowers at home, work or elsewhere if deemed necessary to facilitate collection
- Give advice to member-borrowers with family and personal financial problems leading to late ICF payments, such as excessive borrowing and spending.
- Calculate the amount of funds and debt available in order to estimate remaining time for debt liquidation and plan methods for payoff.
- Analyze and validate reasons of members for not paying on time
- Based on the analysis of individual delinquent accounts determine concrete recommendations to the ICF committee
- Review valuation of collaterals and initiate liquidation proceeding for repossession of collaterals and their disposal
- Submit petition in courts for transferring the deeds and titles of collaterals to IIFC.
- Complete the recovery procedures and participation in conducting legal cases such as sending court notice, etc, to the debtors.
- Arrange for early settlement of accounts if deemed necessary and possible
- Prepare daily activity report & collection list update for discussion to ICF officer & the CEO
- Inform ICF Officer on potential delinquent accounts and already delinquent account
- Perform other tasks as may be required by the CEO.

4. EDUCATION AND EXPERIENCE

- School diploma or equivalent
- Advanced knowledge in business management and finance.
- Experience on collection of debts, resolving the client queries and handling of ICF issues.

- Thorough familiarity with financial markets and Islamic compliant financing
- Strong knowledge of laws and rules on financing and debt collection
- Have an understanding of the working principles of banks and financial institutions.
- Should be efficient in business mathematics.
- Needs to be verbally fluent and know both the working and regional language
- Excellent computer skills
- On-the-job training must be provided

5. KEY COMPETENCES

- Must be able to comply with deadlines and work under pressure
- Must exhibit strong self-confidence, firmness, negotiating and persuasive skills when dealing with the member- borrowers.
- Must exhibit strong interpersonal skills to work with a team as well as interact with member-borrowers.
- Good listening and communication skills
- Strong analytical skills
- Accuracy and attention to detail
- Problem solving
- Honesty and integrity
- Judgment
- Stress tolerance
- Adaptability
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

APPENDIX 6

SAMPLE JOB DESCRIPTIONS FOR ICF OFFICER

POSITION TITLE: Islamic Compliant Financing Officer of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: ICF Assistants (if any)

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for soliciting, negotiating, underwriting and coordinating the approval of Islamic Compliant Financing (ICF) to the IIFC's members in compliance with the IIFC's policies and procedures; ensures good quality of ICF portfolio, develops business checking and confident relationships with members, gathers personal and financial information on potential borrowers to ensure their creditworthiness; and promotes the IIFC's products and services by maintaining good member relations and referring members to appropriate staff for new services.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- Accepting, underwriting, analysis and endorsement of the ICF applications in compliance with the IIFC's policies and procedures
- Consult the members on ICF products and requirements to the applicants
- Identify the ICF requirements of IIFC members and be able to suggest to them the right ICF option available for them by referring to the required documents and providing an explanation of full ICF procedure and duration.
- Interview prospective members/borrowers, assist them in the preparation of the ICF Application Form, and make requests for specified ICF information.
- Ensure that prospective members/borrowers have the required compensating balance for the ICF they are applying for.
- Contact applicants and their references to verify information in the ICF application or as required for completing the paperwork.

- Verify and examine the completeness and accuracy of the required information and documents submitted by prospective members/borrowers
- Analyse the applicants' financial status, property evaluations and credit rating to determine the feasibility of granting ICFs.
- Prepare ICF work-up sheet and ensure completeness of pertinent documents and information as enumerated in the ICF procedures.
- Check the completeness of the ICF documents required prior to endorsement to the CEO & ICF committee for approval
- Review and endorse ICF applications to the CEO & to the ICF committee.
- Check ICF Promissory Notes and other related contracts (agreements) and ensure that they are accurate and complete, and in accordance with policies.
- Ensure that the ICF Promissory Note and other required documents are complete and signed in the presence of all concerned parties
- Maintain and update individual ICF folders of the member/borrowers.
- Open an ICF account in the system based on the written approval of the ICF Committee
- Conduct ICF pre-release orientation
- Ensure the ICF proceeds are released to the member/borrower in accordance with the IIFC's policies and procedures
- Ensures the proper utilization of the ICF funds by the member/borrower
- Monitor ICF payments made by the member/borrowers on a daily basis
- Analyse aging of ICF portfolio
- Ensure that the IIFCUs targets on ICF releases & collection are met
- Promote the IIFC's ICF programs to local communities.
- Convince people to join the IIFC
- Provide information on other IIFC's services including savings and other products.
- Perform other tasks as may be required by the CEO.

4. EDUCATION AND EXPERIENCE

- School diploma or equivalent
- Experience of preparing agreements, resolving the client queries and handling of ICF issues.
- Thorough familiarity with financial markets and Shariah compliant financing
- Strong knowledge of laws and rules on financing and debt collection

- Have an understanding of the working principles of banks and financial institutions.
- Should be efficient in business mathematics.
- Needs to be verbally fluent and know both the working and regional language
- Excellent computer skills
- On-the-job training must be provided

5. KEY COMPETENCES

- Good motivator with commendable interpersonal skills.
- Good listening and communication skills
- Member service orientation
- Strong numerical ability
- Accuracy and attention to detail
- Problem solving
- Honesty and integrity
- Judgment
- Stress tolerance
- Adaptability
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

APPENDIX 7

SAMPLE JOB DESCRIPTIONS FOR SECURITY GUARD

POSITION TITLE: Security Guard of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: None

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for the security, safety and order at the IIFC.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- has to ensure that no malpractice or suspicious activity is being carried out in the premises which would damage or be harmful to property or people
- guard the property against thieves and robbers
- if unable to control a situation by himself, to inform the police and take assistance from them
- station himself outside the gate and inside the IIFC's compound all day & night (24/7)
- police security guards are not allowed to stay inside the office unless required by the CEO or any authority from the IIFC management
- Make a round inspection of the building and inspect doors and locks for any sign of forced opening or tampering. Any signs of tampering should be reported immediately to the CEO or other officer in charge of the IIFC
- record in the logbook the date, time and the name of the key custodian who opens and closes the main IIFC door and steel grille
- Record the time of arrival of employees and contractual personnel in the daily attendance record in the logbook or ensure that all employees have punched in the Bundy clock.
- Conduct body check-up on all entering employees and visiting members before gaining entrance to the main IIFC gate. Any member who will not comply to this requirement will not be allowed to enter the office
- no IIFC member or visitor shall be admitted inside the office before or after office hours without due approval of the CEO or Officer-In-Charge

- record the admission of members/visitors after the IIFC office hours upon discretion of the CEO
- check the content of any package and unwieldy bags brought in and outside the premises
- request the employees and members to leave firearms, packages, unwieldy bags, umbrellas and other items at the entrance
- inspects the premises of the IIFC after office hours if possible together with the IIFC Officer- In Charge to determine that the premises are clear of visitors, members and strangers
- Perform other tasks as may be required by the CEO.

4. EDUCATION AND EXPERIENCE

- Experience in security services
- Completion of special security courses is preferred
- Criminal Background Check
- Reading and writing literacy
- On-the-job instructions must be provided

5. KEY COMPETENCES

- Physical fitness
- Ability to correctly respond and take immediate decisions in the time of crisis
- Good interpersonal skills.
- Good listening and communication skills
- Problem solving
- Honesty and integrity
- Stress tolerance
- Adaptability
- Must be discreet and understand the importance of information confidentiality

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

APPENDIX 8

SAMPLE JOB DESCRIPTIONS FOR CLEANER

POSITION TITLE: Cleaner of the Islamic Investment and Finance Cooperative

1. REPORTING RESPONSIBILITIES

Reports to: CEO of the IIFC

Supervises: None

2. PRIMARY DUTIES & RESPONSIBILITIES

Responsible and accountable for the provision of cleaning and logistical support to the IIFC. A cleaner performs the delicate tasks of cleaning, maintenance and repair that are needed. The need for cleanliness, hygiene and safety is a universal. The cleaner's task affects the quality of work of everyone in the institution. Everyone likes to work in an environment that is clean, safe and healthy. A cleaner makes your office or building comfortable, clean and safe.

3. SPECIFIC DUTIES & RESPONSIBILITIES

- Assess the cleanliness and hygiene situation of the establishment and detect current and potential problems.
- Perform common household tasks to maintain a clean work place. This may come in the form of sweeping floors, cleaning walls and windows and disposing of the trash.
- Ensure that confidential material that is to be disposed of is handled appropriately
- Make simple repairs that do not need professional help. Such repairs can include repairing wall panels and the like.
- Perform simple security measures such as locking doors and closing windows after office working hours.
- Continuous monitoring of the cleanliness of facilities and other equipment.
- Inform the management for the need of extensive repairs and other major renovations in the work area or office.
- Perform simple sterilization procedures such as boiling rugs and other cloths.
- Monitoring hazards in the establishment such as those related to fire and electricity.
- Clean walls, windows and corridors in case of snow or other debris.
- Ensure cleanliness and hygiene in restrooms and other places in the building.

- Always present her/himself clean & neat at all times
- Ensure cleanliness of the office premises at all times
- Wipe the office tables & equipment before the IIFC staff used it for the day. Clean the floor in the morning and during the breaks.
- Always keep away the used glass & plates & wash them immediately
- Keep glasses/plates & other kitchen utensils clean & available at all times
- Ensures that all office equipment and facilities are clean & free from dust
- Keep kitchen supplies & cleaning materials in a secured place. Keep it locked.
- Make requisition to CEO for kitchen/cleaning supplies
- Perform other tasks as may be required by the CEO.

4. **EDUCATION AND EXPERIENCE**

- Criminal Background Check
- Hygiene principles understanding
- Reading and writing literacy
- On-the-job instructions must be provided

5. **KEY COMPETENCES**

- Accuracy
- Good interpersonal skills.
- Good listening and communication skills
- Honesty and integrity
- Adaptability
- Ability to work under pressure

Employee is accountable for non-compliance with this Job Description under Employment Contract and legislation of the [country name].

This Job Description is made in two copies. One copy is given to Employer and one copy is given to Employee.

I am familiar and agree with this Job Description (Employee),

Date: _____

Signature _____

Chapter Twelve

Procurement

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set forth in this document establish standards and guidelines for the Islamic Investment and Finance Cooperative (IIFC) for the procurement of supplies, equipment, construction, and services to ensure that they are obtained as economically as possible through an open and competitive process, and that contracts are managed with good administrative practices and sound business judgment.

As the IIFC is a member-owned organization this policy and related procedures ensure expenditure of member funds in a way that results in the most advantageous outcomes for the members. These outcomes will be achieved when procurement is conducted by staff that appreciate and understand this policy and confidently apply the related procurement procedures.

This policy is developed in compliance with the applicable laws and regulations of the [country name], and IIFC's bylaws.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the Board shall review the policy and make changes if necessary so that it is reflective of the institutional needs, local market competition, daily operations and applicable legislative requirements.

All IIFC's officials, CEO and employees are obliged to accurately and fully comply with this policy. All IIFC's executive staff members and CEO are responsible for ensuring that procurement activity within their responsible business areas is carried out in accordance with this policy and applicable legislative requirements. The IIFC's staff should fully establish the institutional procurement needs and develop effective procurement solutions from an early stage to drive down costs and improve quality in the goods and services to be procured.

The IIFC's Supervisory Committee will be responsible for ensuring that this policy is carried out adequately and that it achieves the goals for which it was created. The Supervisory Committee's members will determine if the policy is being complied with by periodically (preferably monthly and no less than quarterly) reviewing a sample of procurement contracts funded. Audit will be concluded by a written report including findings and recommendations to the IIFC's CEO with a copy to the BOD.

DEFINITION

The term "Procurement" refers to the process by which goods services and works are acquired by the IIFC from third parties. This is a lifecycle process that covers from the initial purchase concept through to the end of the life of the purchased asset or service.

CODE OF CONDUCT

A Code of Conduct shall govern the performance, behavior and actions of the IIFC, including elected officials, employees, directors, volunteers, or agents who are engaged in any aspect of procurement, including – but not limited to – purchasing goods and services; awarding contracts and grants; or the administration and supervision of contracts.

- No employee, official, volunteer or agent of the IIFC shall participate in the selection, award or administration of a bid or contract funded by the IIFC if a conflict of interest is real or apparent to a reasonable person. Restart numbering
- Conflicts of interest may arise when any employee, official, volunteer or agent of the IIFC has a financial, family or any other beneficial interest in the vendor firm selected or considered for a contract.
- No employee, official, volunteer or agent of the IIFC shall do business with, award contracts to, or show favoritism toward a member of his/her immediate family, spouse's family or to any company, vendor or concern who either employs or has any relationship to a family member; or award a contract or bid which violates the spirit or intent of the applicable procurement laws and policies established to maximize free and open competition among qualified vendors.
- The IIFC's employees, officials, volunteers or agents shall neither solicit nor accept gratuities, gifts, consulting fees, trips, favors or anything having a monetary value in excess of US\$ _____ from a vendor, potential vendor, or from the family or employees of a vendor, potential vendor or bidder; or from any party to a sub-agreement or ancillary contract.
- As permitted by laws, rules, policy or regulation, the IIFC shall pursue appropriate legal, administrative or disciplinary action against an employee, official, volunteer, vendor or vendor's agent who is alleged to have committed, has been convicted of or pled no contest to a procurement related infraction. If said person has been convicted, disciplined or pled no contest to a procurement violation, said person shall be removed from any further responsibility or involvement with funds management, procurement actions or bids.

PROCUREMENT POLICIES AND PRINCIPLES

The following principles should be adhered to in the procurement of materials and services by the IIFC:

- Fair Competition: The IIFC should treat all bidders with fairness and ensure that they are given the same level of information when preparing quotations or tenders.
- Conflict of Interest: Situations of conflict of interest with the IIFC should be declared to the IIFC in accordance with the principles set in this policy.
- Cost-effectiveness: Quotations and tenders should be evaluated not only on competitiveness in pricing but also factors such as the quality of the products/services and track records of the bidders.
- Transparency: To ensure transparency, tender documents should provide all the necessary information to facilitate submission of appropriate and competitive tenders.

TYPES OF PROCUREMENT

The following types of procedures should be adopted according to the amounts and nature of the procurement of goods or services:

- Open Tendering (applicable to procurements of value exceeding US\$_____). Notice of tender invitations should be advertised in the public press for free response by all interested suppliers or contractors.
- Restricted or Single Tendering (applicable to all types of procurement): This type of tendering is applicable to procurements of goods or services that can only be provided by a limited number of suppliers or suppliers who are sole agents or patented distributors. Therefore, only one or several suppliers or contractors will be invited to submit written tenders. Sufficient justification should be made for prior approval by the authorized person before proceeding to the tendering exercise.
- General Procurement (applicable to procurements of value below US\$_____):
 - Written Quotation: After obtaining approval from the authorized person written quotations should be sought from three (3) suppliers, whose goods or services meeting the requirements. The lowest quotation meeting the requirements should be accepted.

Verbal Quotation: To enhance administrative efficiency, verbal quotations from not less than two (2) suppliers or contractors may be used for procurement of miscellaneous item or service that costing US\$_____ or below. The responsible officer must make a record of the verbal quotations for review and verification.

PREFERRED SUPPLIERS

The IIFC may utilize a Preferred Supplier for the purchase of certain goods and services. The purpose of this practice is to gain price advantage through bulk buying power and to reduce the need for quotations/tenders by authorized purchasing officers.

The preferred suppliers are identified on a special list. The performance of the IIFC's Preferred Suppliers must be re-evaluated at least every twelve months in order to ensure that the preferred suppliers are providing the optimum level of quality, service and value for money to the IIFC. The decision to add a supplier to the list is made through consultation between the BOD and the CEO of the IIFC. The need to add a supplier to the list arises when particular goods or services are being purchased regularly (i.e. more than twice in three months). When making a decision to add a supplier to the Preferred Suppliers List, at least three possible suppliers must be investigated and the following factors taken into consideration.

- Price of the goods or services to be provided
- Quality of goods or services to be provided
- Warranties offered by supplier
- Reliability of supplier
- Delivery schedules
- Payment terms
- Capability of the organization, including experience and track record
- Development and promotion of local business and industry

TENDERING PROCEDURES

The following summarizes the stringent tendering procedures to be followed:

1. Tender documents/quotations

The IIFC's responsible procurement officer should prepare the tender documents/quotation proforma and provide all the required information in the documents to facilitate bidding from suppliers. The information should include tender specifications and requirements, conditions of contract, required quantity of items and service and timing of provision, assessment criteria, tender closing date and time, the place for depositing the tender, the contact person, and the officer to whom enquiries may be made. The information for the tender should be approved/authorized by the IIFC's CEO.

As far as possible, the officer responsible for seeking quotations from the suppliers/contractors should not be the approving officer for the acceptance of the quotations in the same procurement exercise.

2. Submission of Tenders/Quotations and Opening of Tenders

Unless in exceptional circumstance of urgency, tenderers should be allowed sufficient time to submit their tenders. Tenderers must submit their tenders before the tender closing date and time specified in the tender documents. Any tenders received after the tender closing time shall not be considered. Tenders/quotations should be deposited in the tender box by tenderers in person. For confidentiality, the tender box should be properly locked with a padlock, and the respective key should be separately kept by the IIFC's CEO.

To ensure fairness of the procedures, the tenders/quotations should be taken out of the tender box immediately after the tender closing time. All tenders/quotations received after the tender closing time will not be processed. The responsible officer and CEO shall open the tenders/quotations simultaneously and shall each initial beside the each quotation figures as confirmation.

3. Tender/Quotation Evaluation

In general, tender evaluation should be carried out by an assessment panel consisting of at least three (3) staff members. Evaluation of quotations of small amounts may be carried out by the CEO or other authorized staff member. Tenderers should be required to submit price information and technical information. Appropriate weights should also be given to the two areas. It is normal practice for the assessment panel firstly to evaluate and award an assessment score on technical aspects of the proposals before evaluation of the price information. The assessment panel should conduct a preliminary evaluation of the tenders based on the required information and documents stipulated in the tender documents. This will ascertain full compliance with the stipulated conditions and requirements. The assessment panel should select the most competitive and cost-effective tender among the eligible tenders by evaluation according to the pre-set assessment criteria. For contracts involving higher construction costs or requiring higher standards in technology and service areas, a scoring system should be adopted for giving scores *terms of tender price*, tenderer's reputation, track records and management quality, as well as the professional and technical standard of staff for implementation of the project/service.

The assessment panel shall prepare a tender evaluation report to state clearly its recommendations and the justifications. Where a scoring system has not been adopted and the successful tenderer is not the lowest bidder, full and sufficient justifications must be stated in the evaluation report.

4. Acceptance of Tender

The assessment panel should submit the evaluation report to the IIFC’s officers and officials for approval based on the guideline set in the paragraph (f) “Approval and Authorization” of this section. After endorsement and approval of the selection result, the successful tenderer should be officially notified by post and be invited to enter into a contract with the IIFC. For protection of commercial secrets, it should be ensured that disclosure of the details shall not lead to revelation of any tender information provided in confidence by other tenderers.

Should none of the tenders received be able to fulfill the required specifications and conditions, the tendering exercise should be canceled. The original specifications and conditions should be amended as necessary for purpose of re-tendering.

5. Procedure of Handling Complaints

The IIFC should be committed to maintaining a fair and open procurement system. Tenderers who consider them being treated unfairly can lodge a complaint addressed to the IIFC’s BOD.

6. Approval and Authorization

Approval or authorization should be sought from the following person(s) before inviting suppliers to submit quotations and/or selecting suppliers for seeking quotations:

Value of the Materials or Services to be Procured	Procurement authorized by	Tender approved by

Procurement contracts for amount above US\$._____ should be approved by the IIFC BOD.

Chapter Thirteen

Information Technology & Security

Policies and Procedures

POLICY INTRODUCTION

These policies and procedures set the standards and requirements for the Islamic Investment and Finance Cooperative (IIFC) to provide support for use of technology resources by IIFC while at the same time reducing exposure to the risks associated with the management of information systems.

The IIFC recognizes the value that technology resources provide in facilitating normal administrative and service activities by employees and elected officials.

The security of management information system (MIS) and information technologies (IT) contributes to the IIFC's future success by continually monitoring and enhancing the safety of the IIFC's systems, employees and users in a constantly changing environment.

POLICY REVIEW

The IIFC BOD is responsible for formulating, reviewing, and adjusting this policy. At least on an annual basis the BOD shall review the policy and make changes if necessary so that it is reflective of daily operations and applicable legislative requirements.

RESPONSIBILITY

This policy shall be applicable to all offices, divisions and departments of the IIFC.

The IIFC CEO is responsible for establishing, maintaining, implementing, administering, and interpreting organization-wide information systems security policies, standards, guidelines, and procedures. Therefore the IIFC CEO is responsible for conducting investigations into any alleged computer or network security compromises, incidents, or problems.

A Designated Computer System Administrator (DCSA) is responsible for acting as information systems security coordinator. This individual is responsible for establishing appropriate user privileges, monitoring access control logs, and performing similar security actions for the administrated systems. He or she is also responsible for reporting all suspicious computer and network-security-related activities to the IIFC CEO. The DCSA also serves as local information security liaison, implementing the requirements of this and other information systems security policies, standards, guidelines, and procedures.

Departmental heads are responsible for ensuring that appropriate computer and communication system security measures are observed in their respective areas. Besides funds and staff time needed to meet the requirements of these policies, departmental heads are also responsible for making sure that all users are aware of the IIFC policies related to computer and communication system security. Users are responsible for complying with this and all other IIFC policies defining computer and network security measures.

The CEA and DCSA shall prepare an IT policy for the IIFC and each employee shall be required to read it and sign it at the commencement of their employment with the IIFC, and again whenever they change roles within the IIFC and in any case at least every twelve months. The signed copy shall be kept on their personnel file and another copy shall be kept by the employee for reference.

SCOPE

This policy is divided into subcategories to separately address each of the following issues:

- Hardware
- Network
- Internet

HARDWARE

1. Overview

A great deal of the IIFC's operations is conducted with hardware (PCs and other laptop machines dedicated to a single user's activity). Protection of this hardware and the information handled by these systems is an essential part of the IIFC's operations. To this end, this policy provides information security instructions applicable to all workers (employees, contractors, consultants, temporaries) who use the IIFC's computers. All computer users are expected to comply with this policy as a condition of continued employment. This policy applies whether computers are stand-alone, or connected to a network such as a LAN or the intranet.

2. Restrictions

Business Use Only: The IIFC's computer and communication systems must be used only for business purposes. Incidental personal use is permissible if the use: (a) does not consume more than a trivial amount of resources that could otherwise be used for business purposes, (b) does not interfere with worker's productivity, (c) does not pre-empt any business activity, (d) does not expose the IIFC's systems to any security risk and (e) does not contravene any laws, leave the IIFC open to any form of prosecution or involve an activity that is inconsistent with or in contravention of any IIFC policy. Permissible incidental use of a computer would, for example, involve responding to an electronic mail message about a luncheon. An example of impermissible use of a computer would be for on-line gambling.

3. Configuration Control

- **Changes to Application Software:** The IIFC should have a standard list of permissible software packages that users can run on their computers. Workers must not install other software packages on their computers without obtaining advance permission from the CEO or DCSA. Likewise, workers must not permit automatic software installation routines to be run on the IIFC's computers unless these routines have first been approved by the CEO or DCSA. Auto discovery license management software should be used to remotely determine which software packages are resident on worker hard disks; unapproved software may be removed without worker advance notice or the DCSA should frequently survey the employees' computer and immediately remove any unapproved software from their system.
- **Changes to Operating System Configurations:** On the IIFC's hardware, workers must not change operating system configurations, upgrade existing

operating systems, or install new operating systems. If such changes are required, they will be performed by the DCSA (in person or with remote system maintenance software).

- Changes to Hardware: Computer equipment of the IIFC must not be altered or added to in any way (e.g., upgraded processor, expanded memory, or extra circuit boards) without the prior knowledge of and authorization from the CEO DCSA.

4. Access Control

- Access Control: All IIFC computers must be protected by passwords known to the responsible employee and DCSA. All computers should require a fixed password at the time a computer is booted and again after a certain period of no activity. The DCSA must set the time frame for this period of no activity -- at which point the contents of the screen are obscured -- to 15 minutes or less. If sensitive information resides on a computer, the screen must immediately be obscured or the machine turned off, whenever a worker leaves his or her desk.
- Choice of Passwords: The user-chosen passwords must be at least eight characters in length. These passwords and keys must be difficult to guess. Words in a dictionary, derivatives of user-IDs, and common character sequences such as "123456" must not be employed. Likewise, personal details such as spouse's name, ID number, and birthday must not be used. User-chosen passwords and keys must also not be any part of speech. For example, proper names, geographical locations, common acronyms, and slang must not be employed. Where possible, access control systems must enforce the use of complex passwords. Complex passwords are defined as passwords that:
 - Consist of at least 8 characters
 - Include characters from 3 of the following 4 classes:
 - Lower case letters
 - Upper case letters
 - Numbers
 - Symbols
 - Do not contain any words found in the dictionary, or any part of the users' full name or account name, or other personal data such as date of birth, ID number, family names, etc.
- Storage of Passwords: Workers must maintain exclusive control of their personal passwords; they must not share them with others (Except for the DCSA). Passwords must not be stored in readable form in batch files, automatic log-in scripts, software macros, terminal function keys, in computers without access controls, or in other locations where unauthorized persons might discover them.
- Logging of Events Related to Secret Information: computers handling secret information must securely log all significant computer security relevant events. Examples of computer security relevant events include: password guessing attempts, attempts to use privileges that have not been authorized, modifications to production application software, and modifications to system software.

5. Viruses

- **Virus Program Installed:** All computers must run a virus detection package which has been selected by the CEO or designated IT specialist. This package must run each time the machine is turned-on and whenever external storage media is supplied (for example when a USB flash drive is inserted).
- **Decompression before Checking:** Externally supplied USB disks, CD-ROMs, and other removable storage media must not be used unless they have first been checked for viruses. Externally supplied computer-readable files (software programs, databases, word processing documents, spread sheets, etc.) must be decompressed prior to being subjected to an approved virus checking process. If the files have been encrypted, they must be decrypted before running a virus checking program. Many virus checking programs cannot detect viruses in compressed or encrypted files.
- **Eradicating Viruses:** Because viruses can be complex and sophisticated, workers must not attempt to eradicate them without expert assistance. If workers suspect infection by a virus, they must immediately stop using the involved computer, disconnect from all networks, and call the IT specialist. If the suspected virus appears to be damaging information or software, workers must turn the computer off immediately.
- **Playing With Viruses:** Users must not intentionally write, compile, copy, propagate, execute, or attempt to introduce any computer code designed to self-replicate, damage, or otherwise hinder the performance of any IIFC computer system. Such software may be called a virus, bacteria, worm, or a Trojan horse.

6. Back-Up

- **Archival Copies:** All computer software must be copied prior to its initial usage, and such copies must be stored in a safe and secure location. These master copies must not be used for ordinary business activities, but must be reserved for recovery from virus infections, hard disk crashes, and other computer problems. Documentation about the licenses for such software must be retained to get technical support, qualify for upgrade discounts, and verify the legal validity of the licenses.
- **Periodic Back-Up:** All sensitive, valuable, or critical information resident on IIFC computer systems must be retained on a file server and be periodically backed-up daily. These separate back-up copies should be made each time that a significant number of changes are saved. Assigned staff must verify that proper back-ups are being made.

7. Destruction

- **Deletion of Old Information:** Workers are required to delete information from their computers if it is clearly no longer needed or potentially not useful. Use of an "erase" feature (e.g., putting a document in a trashcan icon) is not sufficient for sensitive information because the information may still be

recoverable. Sensitive information should be deleted via an overwrite program selected by the CEO or DCSA

- Destruction of Information: Prior to disposal, defective or damaged floppy disks or CDs or DVDs containing sensitive information must be destroyed using scissors or other effective methods. All hardcopy containing sensitive information must be disposed of in secure bins or via a shredder.

8. Networking

- Modems: Modems in office desktop computers are not permitted. Mobile and telecommuting computers are an exception to this rule. Users needing to make connections with remote computers must route their connections through modem pools or the Internet firewall (if any).
- Establishing Networks: Workers must not establish electronic bulletin boards, local area networks, modem connections to existing internal networks, or other multi-user systems for communicating information without the specific approval of the IIFC CEO or DCSA. All networks are established based on the approval from the IIFC's CEO. This policy helps ensure that all IIFC's networked systems have the controls needed to prevent unauthorized access.

9. Physical Security of Computers

- Equipment Theft: Periodic physical inventories are used to track the movement of computers and related computer equipment. This must be done by the designated staff at the IIFC.
- Custodians for Equipment: The primary user of a computer is considered a custodian for the equipment. If the equipment has been damaged, lost, stolen, borrowed, or is otherwise unavailable for normal business activities, a custodian must promptly inform the IIFC CEO. Computer equipment must not be moved or relocated without the knowledge and approval of the CEO or designated IT specialist.
- Use of Personal Equipment: Workers must not bring their own computers, computer peripherals, or computer software into the IIFC facilities without prior authorization from the CEO or designated IT specialist.
- Positioning Display Screens: The display screens for all computers used to handle sensitive or valuable data must be positioned such that the information cannot be readily viewed through a window, by persons walking in a hallway, or by persons waiting in reception and related areas.
- Locking Sensitive Information: When not being used by authorized workers, or when not clearly visible in an area where authorized persons are working, all hardcopy sensitive information must be locked in file cabinets, desks, safes, or other furniture. Likewise, when not being used, or when not in a clearly visible and attended area, all computer storage media (flash drives, floppy disks, tapes, CD-ROMs, etc.) containing sensitive information must be locked in similar enclosures.
- Environmental Considerations: Those computers with critical production applications must have uninterruptible power systems (UPSs).

- Eating & Drinking: Workers are strongly advised not to eat or drink when using computers. Food and drink can cause damage to electronic equipment such as keyboards, motherboards, etc.

NETWORK

1. Overview

- The purpose of this policy is to establish management direction, procedures, and requirements to ensure the appropriate protection of the IIFC's information handled by computer networks.
- This policy applies to all employees, contractors, consultants, temporaries, and other workers at IIFC, including those workers affiliated with third parties who access IIFC computer networks. Throughout this policy, the word "worker" will be used to collectively refer to all such individuals. The policy also applies to all computer and data communication systems owned by and/or administered by the IIFC.
- All information travelling over IIFC computer networks that has not been specifically identified as the property of other parties will be treated as though it is an IIFC corporate asset. It is the policy of the IIFC to prohibit unauthorized access, disclosure, duplication, modification, diversion, destruction, loss, misuse, or theft of this information. In addition, it is the policy of the IIFC to protect information belonging to third parties--that has been entrusted to the IIFC in confidence--in the same manner as the IIFC trade secrets as well as in accordance with applicable contracts.

2. System Access Control

- End-User Passwords: Users must choose passwords that are difficult to guess. User-chosen passwords must be at least eight characters in length. Words in a dictionary, derivatives of user-IDs, and common character sequences such as "123456" must not be employed. Likewise, personal details such as spouse's name, ID number, and birthday must not be used. User-chosen passwords must also not be any part of speech. For example, proper names, geographical locations, common acronyms, and slang must not be employed. Where possible, access control systems must enforce the use of complex passwords. Complex passwords are defined as passwords that:
 - Consist of at least 8 characters
 - Include characters from 3 of the following 4 classes:
 - Lower case letters
 - Upper case letters
 - Numbers
 - Symbols
 - Do not contain any words found in the dictionary, or any part of the users' full name or account name, or other personal data such as date of birth, ID number, family names, etc.
- Users can choose easily-remembered passwords that are at the same time difficult for unauthorized parties to guess by following these steps:

- Choose an easy to remember word or phrase of at least 8 characters (for example, “families are forever”)
- Capitalizing the beginning of words (“Families are Forever”)
- Choosing a substitution of some letters for symbols or numbers - @ for A, 1 for I, 3 for E, etc. (“Families are Forever” could change to F@milie3 R 4ever)
- The end result is a very strong and complex password, yet is easy to remember when the user follows the same rules each time they create a password.
- Users must not construct passwords that are identical or substantially similar to passwords they have previously employed. Users will be prevented from reusing previous passwords.
- Users must not construct passwords using a basic sequence of characters that is then partially changed based on the date or some other predictable factor. For example, users must NOT employ passwords like "X34JAN" in January, "X34FEB" in February, etc.
- Passwords must not be stored in readable form in batch files, automatic log-in scripts, software macros, terminal function keys, in computers without access control, or in other locations where unauthorized persons might discover them.
- Passwords must not be written down and left in a place where unauthorized persons might discover them. Aside from initial password assignment and password reset situations, if there is reason to believe that a password has been disclosed to someone other than the authorized user, the password must be immediately changed.
- Regardless of the circumstances, passwords must never be shared or revealed to anyone else besides the authorized user. To do so exposes the authorized user to responsibility for actions that the other party takes with the disclosed password. If users need to share computer resident data, they should use electronic mail, public directories on local area network servers, and other mechanisms. This policy does not prevent the use of default passwords--typically used for new user-ID assignment or password reset situations--which are then immediately changed when the user next logs-on to the involved system.
- All passwords must be immediately changed if they are suspected of being disclosed, or known to have been disclosed to anyone besides the authorized user.

3. Password System Set-up:

- All computers permanently or intermittently connected to IIFC networks must have password access controls. Multi-user systems must employ user-IDs and passwords unique to each user, as well as user privilege restriction mechanisms. Network-connected single-user systems must employ hardware or software mechanisms that control the system.
- Computer and communication system access control must be achieved via passwords, which are unique to each individual user. Access control to files,

applications, databases, computers, networks, and other system resources via shared passwords (also called "group passwords") is prohibited.

- Wherever systems software permits, the display and printing of passwords must be masked, suppressed, or otherwise obscured such that unauthorized parties will not be able to observe or subsequently recover them.
- Wherever systems software permits, the initial passwords issued to a new user by a security administrator must be valid only for the new user's first on-line session. At that time, the user must choose another password. This same process applies to the resetting of passwords in the event that a user forgets a password.
- All vendor-supplied default passwords must be changed before any computer or communications system is used for IIFC operations. This policy applies to passwords associated with end-user user-IDs, as well as passwords associated with systems administrator and other privileged user-IDs.
- To prevent password guessing attacks, where systems software permits, the number of consecutive attempts to enter an incorrect password must be strictly limited. After three (3) unsuccessful attempts to enter a password, the involved user-ID must be either suspended until reset by a system administrator, or temporarily disabled for no less than ten (10) minutes. If dial-up or other external network connections are involved, the session must be disconnected.
- Whenever system security has been compromised, or even if there is a convincing reason to believe that it has been compromised, the involved system administrator must immediately: (a) reassign all relevant passwords, and (b) force every password on the involved system to be changed at the time of the next log-in. If systems software does not provide the latter capability, a broadcast message must be sent to all users telling them to change their passwords.
- Whenever system security has been compromised, or even if there is a convincing reason to believe that it has been compromised, a trusted version of the operating system and all security-related software must be reloaded from trusted storage media such as CD-ROMs, magnetic tapes. The involved system(s) must then be rebooted. Similarly, all changes to user privileges taking effect since the time of suspected system compromise must be immediately reviewed by the systems administrator for unauthorized modifications.

4. Log-In/Log-Off Process

- All users must be positively identified prior to being able to use any multi-user computer or communications system resources. Positive identification for internal IIFC networks involves both a user-ID and a fixed password, both of which are unique to an individual user.
- Positive identification for dial-up lines involves the use of hand-held tokens, cryptographic challenge/response, or other approved extended user authentication techniques. Modems attached to network-connected workstations situated in IIFC office are forbidden unless they are approved by the IIFC CEO because they do not provide adequate positive user

identification. Modems connected to isolated computers (such as portable computers and home computers) are permissible.

- Positive identification for users originating external real-time connections to IIFC systems or networks via value added networks (like BT Tymnet), public networks (like Internet), or any other external communications system must also involve extended user authentication techniques.
- Where systems software permits, every log-in banner on multi-user computers must include a special notice. This notice must state: (1) the system is to be used only by authorized users, and (2) by continuing to use the system, the user represents that he/she is an authorized user.
- The log-in process for network-connected IIFC computer systems must simply ask the user to log-in, providing prompts as needed. Specific information about the organization, the computer operating system, the network configuration, or other internal matters must not be provided until a user has successfully provided both a valid user-ID and a valid password.
- If there has been no activity on a computer terminal, workstation, or computer for a certain period of time, the system must automatically blank the screen and suspend the session. Re-establishment of the session must take place only after the user has provided a valid password. The recommended period of time is fifteen (15 minutes). An exception to this policy will be made in those cases where the immediate area surrounding a system is physically secured via cipherlocks, secured-room badge readers, or similar technology.

5. System Privileges

- Limiting System Access: The computer and communications system privileges of all users, systems, and independently-operating programs (such as "agents") must be restricted based on the need-to-know.
- Default user file permissions must not automatically allow anyone on the system (on UNIX systems, the "world") to read, write, or execute a file. Although users may reset permissions on a file-by-file basis, such permissive default file permissions are prohibited. Nonetheless, default file permissions granted to limited groups of people who have a bona fide need-to-know are allowed.
- IIFC computer and communications systems must restrict access to the computers that users can reach over IIFC networks. These restrictions can be implemented via routers, gateways, front-end telecommunications processors, and other network components. These restrictions must be used to, for example, control "passthru"--where a user logging-into a certain computer then moves from that computer on to another.

6. Establishment of Access Paths

- Changes to the IIFC internal networks include loading new software, changing network addresses, reconfiguring routers, adding dial-up lines, and the like. With the exception of emergency situations, all changes to IIFC computer networks must be: (a) documented in a work order request, and (b) approved in advance by the assigned MIS/IT specialist except as explicitly delegated by

the CEO of the IIFC. Emergency changes to the IIFC networks must only be made by persons who are authorized by the CEO. This process prevents unexpected changes from inadvertently leading to denial of service, unauthorized disclosure of information, and other problems. This process applies not only to "workers" as defined in the responsibility section of this policy, but also to vendor personnel.

- Workers must NOT establish electronic bulletin boards, local area networks, modem connections to existing local area networks, or other multi-user systems for communicating information without the specific approval of the CEO. Likewise, new types of real-time connections between two or more in-house computer systems must not be established unless such approval has first been obtained.
- To stop unauthorized system access and related problems, all inter-processor commands from non-IIFC locations are prohibited unless a user or processor has first properly logged-in.
- Portable phones using radio technology as well as cellular phones must not be used for data transmissions containing IIFC "confidential" or "restricted" information unless the connection is encrypted. Likewise, other broadcast networking technologies--such radio-based local area networks--must not be used for these types of IIFC information unless the link is encrypted. Such links may be used for electronic mail as long as the user understands that it contains no "confidential" or "restricted" information.

7. Computer Viruses, Worms, and Trojan Horses

- A computer virus is an unauthorized program that replicates itself, attaches itself to other programs, and spreads onto various data storage media (flash drive, floppy disks, magnetic tapes, random access memory, etc.) and/or across a network. The symptoms of virus infection include much slower computer response time, inexplicable loss of files, changed modification dates for files, increased file sizes, and total failure of computers.
- To assure continued uninterrupted service for both computers and networks, all computer users must keep approved virus screening software enabled on their computers. This screening software must be used to scan all software coming from either third parties or other IIFC departments; the scanning must take place before the new software is executed. Users may not bypass scanning processes that could arrest the transmission of computer viruses.
- Users must immediately inform the CEO or designated IT specialist (system administrator) whenever they believe that a system has been infected. This will allow steps to promptly be taken to assure that no further infection takes place and that experts needed to eradicate the virus are promptly engaged.
- To assist with the post-virus-infection restoration of computer environments, all computer software must be copied prior to its initial usage, and such copies must be stored in a safe place. These master copies must not be used for ordinary business activities, but must be reserved for recovery from computer virus infections, hard disk crashes, and other computer problems. These master copies must also be stored in a secure location.

8. Data and Program Back-Up

- To protect IIFC's information resources from loss or damage, computer users are responsible for backing-up the information on their machines. For multi-user computer and communication systems, a systems administrator is responsible for making periodic back-ups. All sensitive ("restricted" or "confidential"), valuable, or critical information resident on the IIFC computer systems and networks must be periodically backed-up.
- The IIFC requires the use of at least two (2) sets of back-up storage media (flash drive, tapes, CD-ROMs, etc.) to be used in rotation. For multi-user machines, whenever systems software permits, back-ups should be performed without end-user involvement, over an internal network and during the night.
- Storage of back-up media is the responsibility of the computer systems administrator involved in the back-up process. Media should be stored in fireproof safes, at a separate location at least several city blocks away from the system being backed-up.

9. Encryption

- When IIFC "non-public" information is transmitted over the Internet, it must be sent in encrypted form. When IIFC "secret" or "confidential" information is transmitted over any communication network, it must be sent in encrypted form such as either using PGP software or WinRAR (by setting the password and locking the archive)
- Whenever encryption is used, workers must not delete the sole readable version of the information unless they have first demonstrated that the decryption process is able to re-establish a readable version of the information.
- Encryption keys used for IIFC information are always classified as "confidential" or "restricted" information. Access to such keys must be strictly limited to those who have a need-to-know.
- Whenever such facilities are commercially available, IIFC must employ automated rather than manual encryption key management processes for the protection of information on IIFC networks.

10. Portable Computers

- Workers in the possession of portable, laptop, notebook, palmtop, and other transportable computers containing "restricted" or "confidential" IIFC information must not leave these computers unattended at any time unless the information is stored in encrypted form.
- To prevent unauthorized disclosure, workers in the possession of transportable computers containing unencrypted "restricted" or "confidential" IIFC information must not check these computers in airline luggage systems, with hotel porters, etc. These computers must remain in the possession of the traveller as hand luggage.

11. Remote Printing

- Printers must not be left unattended if "restricted" or "confidential" information is being printed or will soon be printed. The persons attending the printer must be authorized to examine the information being printed. Unattended printing is permitted if the area surrounding the printer is physically protected such that persons who are not authorized to see the material being printed may not enter.

12. Privacy

- Unless contractual agreements dictate otherwise, messages sent over IIFC computer and communications systems are the property of IIFC. To properly protect and manage this property, management reserves the right to examine all data stored in or transmitted by these systems. Since IIFC's computer and communication systems must be used for business purposes only, workers should have no expectation of privacy associated with the information they store in or send through these systems.

13. Physical Security of Computer and Communications Gear

- All IIFC network equipment must be physically secured. For example, local area network servers must be placed in locked cabinets, locked closets, or locked computer rooms.
- Access to systems development staff offices, telephone wiring closets, computer machine rooms, network switching rooms, and other work areas containing "restricted" or "confidential" information must be physically restricted. Management responsible for the staff working in these areas must determine the appropriate access control method (receptionists, metal key locks, magnetic card door locks, etc.).
- All workers who must keep "restricted" or "confidential" IIFC information at their homes in order to do their work must receive prior written authorization from the IIFC CEO. At the time of separation from the IIFC, the information stored therein must be immediately returned.
- "Restricted" or "confidential" information must not be downloaded to remote locations--such as sales offices--unless proper physical security and encryption facilities are installed and faithfully observed.

INTERNET

1. Introduction

- Opportunities & Risks: The wide array of new resources, new services, and interconnectivity available via the Internet all introduce new opportunities and new risks. In response to the risks, this policy describes the IIFC's official policy regarding Internet security.
- Applicability: This policy applies to all workers (employees, contractors, temporaries, etc.) who use the Internet with IIFC computing or networking resources. All Internet users are expected to be familiar with and comply with this policy. Questions about the policy should be directed to the IIFC CEO.

Violations of this policy can lead to revocation of system privileges and/or disciplinary action including termination.

- **Prior Management Approval:** Access to the Internet (aside from electronic mail) will be provided to only those employees who have a legitimate need for such access. The ability to surf the web and engage in other Internet activities is not a fringe benefit to which all workers are entitled.

2. Information Integrity

- **Information Reliability:** All information taken off the Internet should be considered suspect until confirmed by separate information from another source. There is no quality control process on the Internet, and a considerable amount of its information is out dated and inaccurate, and in some instances even deliberately misleading.
- **Virus Checking:** All non-text files (databases, software object code, spread sheets, formatted word processing package files, etc.) downloaded from non-IIFC sources via the Internet must be screened with virus detection software prior to being used. Whenever an external provider of the software is not trusted, downloaded software should be tested on a stand-alone non-production machine that has been recently backed-up. If this software contains a virus, worm, or Trojan horse, then the damage will be restricted to the involved machine. Downloaded files must be decrypted and decompressed before being screened for viruses.
- **Push Technology:** Automatic updating of software or information on IIFC computers via background "push" Internet technology is prohibited unless the involved vendor's system has first been tested and approved by the CEO.
- **User Anonymity:** Misrepresenting, obscuring, suppressing, or replacing a user's identity on the Internet or any IIFC electronic communications system is forbidden. The user name, electronic mail address, organizational affiliation, and related information included with messages or postings must reflect the actual originator of the messages or postings. If users have a need to employ remailers or other anonymous facilities, they must do so on their own time, with their own information systems, and with their own Internet access accounts.

3. Information Confidentiality

- **Information Exchange:** In keeping with the confidentiality agreements signed by all workers, IIFC software, documentation, and all other types of internal information must not be sold or otherwise transferred to any non-IIFC party for any purposes other than business purposes expressly authorized by management. Exchanges of software and/or data between IIFC and any third party may not proceed unless a written agreement has first been signed. Such an agreement must specify the terms of the exchange, as well as the ways in which the software and/or data is to be handled and protected.
- **Posting Materials:** Workers must not post unencrypted IIFC material (software, internal memos, policies, etc.) on any publicly-accessible Internet computer which supports anonymous FTP or similar publicly-accessible

services, unless the posting of these materials has first been approved by the CEO. In more general terms, the IIFC internal information must not be placed in any computer unless the persons who have access to that computer have a legitimate need-to-know the involved information.

- **Message Interception:** Wiretapping and other types of message interception are straightforward and frequently encountered on the Internet. Accordingly, the IIFC's secret, proprietary, or private information must not be sent over the Internet unless a release has been signed by the user at the IIFC. Unless specifically known to be in the public domain, source code must always be encrypted before being sent over the Internet.
- **Security Parameters:** Credit card numbers, telephone calling card numbers, fixed log-in passwords, and other security parameters that can be used to gain access to goods or services, must not be sent over the Internet in readable form. The Internet encryption standards should be used for the protection of security parameters.

4. Public Representations

- **External Representations:** Workers may indicate their affiliation with the IIFC in mailing lists (listservs), chat sessions, and other offerings on the Internet. This may be done by explicitly adding certain words, or it may be implied, for instance via an electronic mail address. In either case, whenever workers provide an affiliation, they must also clearly indicate the opinions expressed are their own, or not necessarily those of the IIFC. Likewise, if an affiliation with the IIFC is provided, political advocacy statements and product/service endorsements are also prohibited unless they have been previously cleared by the IIFC CEO or a designated representative. With the exception of ordinary marketing and customer service activities, all representations on behalf of the IIFC must first be cleared by the CEO or a designated representative.
- **Appropriate Behaviour:** To avoid libel, defamation of character, and other legal problems, whenever any affiliation with the IIFC is included with an Internet message or posting, "flaming" or similar written attacks are strictly prohibited. Likewise, workers must not make threats against another user or organization over the Internet. All Internet messages intended to harass, annoy, or alarm another person are similarly prohibited. Violations of this policy can lead to revocation of system privileges and/or disciplinary action including termination.
- **Removal of Postings:** Those messages sent to Internet discussion groups, electronic bulletin boards, or other public forums, which include an implied or explicit affiliation with the IIFC, may be removed if management deems them to be inconsistent with the IIFC's business interests or existing policy. Messages in this category include: (a) political statements, (b) religious statements, (c) cursing or other foul language, and (d) statements viewed as harassing others based on race, creed, colour, age, sex, physical handicap, or sexual orientation. The decision to remove electronic mail must be made by the CEO. When practical and feasible, individuals responsible for the message will be informed of the decision and given the opportunity to remove the message(s) themselves.

- **Disclosing Internal Information:** Workers must not publicly disclose internal IIFC information via the Internet that may adversely affect IIFC's customer relations or public image unless the approval of the CEO has first been obtained. Such information includes business prospects, products now in research and development, product performance analyses, product release dates, and the like. Responses to specific customer electronic mail messages are exempted from this policy.

5. Personal Use

- **Personal Use:** the IIFC management encourages workers who have been granted Internet access to explore the Internet, but if this exploration is for personal purposes, it must be done on personal, not company time. Likewise, games, news groups, and other non-business activities must be performed on personal, not company time. Use of the IIFC computing resources for these personal purposes is prohibited. Workers must not employ the Internet or other internal information systems in such a way that the productivity of other workers is eroded; examples include chain letters and broadcast charitable solicitations.
- **Blocking Sites:** the IIFC firewalls should routinely prevent users from connecting with certain non-business web sites. Workers using IIFC computers who discover they have connected with a web site that contains sexually explicit, racist, violent, or other potentially offensive material must immediately disconnect from that site. The ability to connect with a specific web site does not in itself imply that users of the IIFC systems are permitted to visit that site.

6. Privacy Expectations

- **No Default Protection:** Workers using IIFC information systems and/or the Internet should realize that their communications are not automatically protected from viewing by third parties. Unless encryption is used, workers should not send information over the Internet if they consider it to be confidential or private.
- **Management Review:** At any time and without prior notice, the IIFC management reserves the right to examine electronic mail messages, files on personal computers, web browser cache files, web browser bookmarks, and other information stored on or passing through the IIFC computers.
- **Logging:** the IIFC system should routinely log web sites visited, files downloaded, time spent on the Internet, and related information. Department seniors receive reports of such information and use it to determine what types of Internet usage are appropriate for their department's business activities.

7. Reporting Security Problems

- **Notification Process:** If sensitive IIFC information is lost, disclosed to unauthorized parties, or suspected of being lost or disclosed to unauthorized

parties, the CEO of Islamic Investment and Finance Cooperative must be notified immediately. Similarly, whenever passwords or other system access control mechanisms are lost, stolen, or disclosed, or are suspected of being lost, stolen, or disclosed, the CEO of the IIFC must be notified immediately. Because it may indicate a computer virus infection or similar security problem, all unusual systems behavior, such as missing files, frequent system crashes, misrouted messages, and the like must also be immediately reported. The specifics of security problems should not be discussed widely in any situation, but should instead be shared on a need-to-know basis with due care and responsibility.

APPENDIX 1

USER COMPLIANCE STATEMENT AND NOTIFICATION **To be signed prior to issuance of a user ID and periodically thereafter**

By my signature below, I certify that the following is true and correct:

1. I understand and agree to abide by IIFC policies and procedures related to computers and networks, including the instructions contained in the IT Security Policy.

2. I have been informed as to the specific acts that constitute computer and network security violations and have been put on notice that such violations will be logged and may result in disciplinary action up to and including termination.

Name: _____